



**Auditor of State  
Betty Montgomery**



**CITY OF MARTINS FERRY  
BELMONT COUNTY**

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**CITY OF MARTINS FERRY  
BELMONT COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

City of Martins Ferry  
Belmont County  
Fifth and Walnut Streets  
P.O. Box 386  
Martins Ferry, Ohio 43935

To Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martins Ferry, Belmont County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martins Ferry, Belmont County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street Maintenance & Repair, Fire Apparatus Levy III, and Fire and Ambulance Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

September 22, 2006

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
(Unaudited)

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The discussion and analysis of the City of Martins Ferry's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

***Financial Highlights***

Key financial highlights for 2005 are as follows:

- General Revenues accounted for \$2,141,113 in revenue or 31 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,876,361 or 69 percent of total revenues of \$7,017,474.
- Total program expenses were \$6,389,583. \$3,560,946 in governmental activities and \$2,828,637 in business-type activities.
- In total, net assets increased \$627,891. Net assets of governmental activities decreased \$82,879, which represents a .013 percent decrease from 2004. Net assets of business-type activities increased \$710,770 or 27.4 percent from 2004.
- Outstanding debt increased from \$9,389,042 to \$10,296,475 due to additional borrowings.

***Using this Annual Financial Report***

This report is designed to allow the reader to look at the financial activities of the City of Martins Ferry as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2005 and how they affected the operations of the City as a whole.

***Reporting the City of Martins Ferry as a Whole***

*Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of Martins Ferry, the General, Street Maintenance and Repair, Fire Apparatus Levy III, Fire and Ambulance, and Permanent Improvement Funds are the most significant governmental funds. The Water and Sanitation Funds are the significant enterprise funds.

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
(Unaudited)

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A question typically asked about the City's finances "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the City as a whole, the *financial position* of the City 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 City's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

- ✓ Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, public health services, community and economic development, leisure time activities and transportation.
- ✓ Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's business-type activities are water, sanitation, sewer, parking meter and off street parking.

***Reporting the City of Martins Ferry's Most Significant Funds***

*Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General, Street Maintenance and Repair, Fire Apparatus Levy III, Fire and Ambulance, and Permanent Improvement.

**Governmental Funds** - Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 City's general government 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 future services. 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Street Maintenance and Repair, Fire Apparatus Levy III, Fire and Ambulance, and Permanent Improvement Funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.



**City of Martins Ferry**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2005  
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund to demonstrate compliance with this budget.

**Proprietary Funds** - Proprietary funds use the same basis of accounting as business-type activities (water, sanitation, sewer, off street parking and parking meter); therefore, these statements will essentially match.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

**The City of Martins Ferry as a Whole**

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

**(Table 1)**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
<b>Assets</b>						
Current and Other Assets	\$ 4,792,915	\$ 5,703,149	\$ 505,758	\$ 629,703	\$ 5,298,673	\$ 6,332,852
Capital Assets	3,056,362	2,580,918	12,567,261	11,828,475	15,623,623	14,409,393
<b>Total Assets</b>	<b>7,849,277</b>	<b>8,284,067</b>	<b>13,073,019</b>	<b>12,458,178</b>	<b>20,922,296</b>	<b>20,742,245</b>
<b>Liabilities</b>						
Long-Term Liabilities	856,465	945,595	9,612,389	8,591,515	10,468,854	9,537,110
Other Liabilities	671,538	934,319	155,965	1,272,768	827,503	2,207,087
<b>Total Liabilities</b>	<b>1,528,003</b>	<b>1,879,914</b>	<b>9,768,354</b>	<b>9,864,283</b>	<b>11,296,357</b>	<b>11,744,197</b>
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	2,458,963	1,880,138	3,064,295	3,329,617	5,523,258	5,209,755
Restricted	2,791,191	2,746,694	0	0	2,791,191	2,746,694
Unrestricted (Deficit)	1,071,120	1,777,321	240,370	(735,722)	1,311,490	1,041,599
<b>Total Net Assets</b>	<b>\$ 6,321,274</b>	<b>\$ 6,404,153</b>	<b>\$ 3,304,665</b>	<b>\$ 2,593,895</b>	<b>\$ 9,625,939</b>	<b>\$ 8,998,048</b>

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*(Unaudited)*

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Total assets increased by \$180,051 with governmental assets decreasing \$434,790 and business-type assets increasing \$614,841. An increase of approximately \$1,214,230 in total capital assets reflects the installment of new waterlines was the majority of the increase in business-type assets. Total liabilities decreased by \$447,840 with governmental liabilities decreasing \$351,911 and business-type assets decreasing \$95,929.

Total net assets increased by \$627,891. This number reflects a decrease of \$82,879 in governmental activities and an increase of \$710,770 in the net assets of the business-type activities.

Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparison. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

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**City of Martins Ferry**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2005  
(Unaudited)

**(Table 2)**  
**Changes in Net Assets**

	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
	2005	2005	2005	2004	2004	2004
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services and Sales	\$ 699,292	\$ 3,476,556	\$ 4,175,848	\$ 275,382	\$ 3,437,969	\$ 3,713,351
Grants and Contributions	699,294	1,219	700,513	877,105	691	877,796
<i>General Revenue:</i>						
Property Taxes	279,954	0	279,954	286,236	0	286,236
Income Taxes	1,129,100	0	1,129,100	1,032,181	0	1,032,181
Grants and Entitlements	458,893	0	458,893	762,038	0	762,038
Investment Earnings	148,304	0	148,304	139,866	1,092	140,958
Miscellaneous	81,588	43,274	124,862	78,570	80,245	158,815
<b>Total Revenues</b>	<b>3,496,425</b>	<b>3,521,049</b>	<b>7,017,474</b>	<b>3,451,378</b>	<b>3,519,997</b>	<b>6,971,375</b>
<b>Program Expenses</b>						
General Government	710,251	0	710,251	502,242	0	502,242
Security of Persons and Property	1,781,039	0	1,781,039	1,480,341	0	1,480,341
Transportation	573,579	0	573,579	592,280	0	592,280
Public Health Services	85,159	0	85,159	98,547	0	98,547
Community and Economic Development	290,747	0	290,747	347,956	0	347,956
Leisure Time Activities	91,459	0	91,459	96,103	0	96,103
Interest and Fiscal Charges	28,712	0	28,712	37,844	0	37,844
<i>Enterprise Operations:</i>						
Off Street Parking	0	5	5	0	280	280
Parking Meter	0	41,221	41,221	0	50,431	50,431
Water	0	1,914,752	1,914,752	0	2,295,110	2,295,110
Sewer	0	249,987	249,987	0	274,549	274,549
Sanitation	0	622,672	622,672	0	611,205	611,205
<b>Total Program Expenses</b>	<b>3,560,946</b>	<b>2,828,637</b>	<b>6,389,583</b>	<b>3,155,313</b>	<b>3,231,575</b>	<b>6,386,888</b>
Change in Net Assets						
Before Transfers	(64,521)	692,412	627,891	296,065	288,422	584,487
Transfers In (Out)	(18,358)	18,358	0	(138,345)	138,345	0
<b>Change in Net Assets</b>	<b>\$ (82,879)</b>	<b>\$ 710,770</b>	<b>\$ 627,891</b>	<b>\$ 157,720</b>	<b>\$ 426,767</b>	<b>\$ 584,487</b>

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*(Unaudited)*

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**Governmental Activities**

The funding for the governmental activities comes from several different sources. Prominent sources are property taxes, income taxes, grants and entitlements, and charges for services.

The City's income tax is at a rate of .75%. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to .75% for those who pay income tax to another city.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax, and intergovernmental funding most expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police represents the largest expense of the governmental activities. This expense of \$1,781,039 represents 50 percent of the total expenses. This department operates out of the General and Police Levy Funds.

**Business-Type Activities**

Business-type activities include water, sewer, sanitation, parking meter and off street parking operations. The revenues are generated primarily from charges for services. In 2005, charges for services of \$3,476,556 accounted for 98.74 percent of the business-type revenues. The total expenses for the utilities were \$2,828,637.

***The City's Funds***

Information about the City's governmental funds begins on page 27. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$3,786,800 and expenditures of \$4,671,868. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 27. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$2,601,509 which was less than operating revenues of \$3,519,830 by \$918,321 or 26.09 percent of operating revenues.

***General Fund Budgeting Highlights***

The City'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 2005, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the General Fund, actual receipts were less than the final budgeted revenues and other financing sources by \$5.

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*(Unaudited)*

Actual disbursements and other financing uses of the General Fund were \$27,647 below the final budgeted amount of \$2,017,123. The primary factor contributing to this was disbursements for security of persons and property and general government being \$23,645 below budgeted amounts.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of year 2005, the City had \$15,623,623 invested in land, buildings, construction in progress, improvements, machinery and equipment, infrastructure and vehicles. A total of \$3,056,362 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2005 balances compared with 2004.

**(Table 3)**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 875,641	\$ 860,641	\$ 158,570	\$ 158,570	\$ 1,034,211	\$ 1,019,211
Buildings	704,588	736,463	4,466,297	4,614,559	5,170,885	5,351,022
Buildings Improvements	181,210	98,346	858,193	908,203	1,039,403	1,006,549
Machinery and Equipment	70,609	37,734	2,430,943	2,612,408	2,501,552	2,650,142
Vehicles	764,939	505,226	102,689	63,377	867,628	568,603
Infrastructure	167,058	118,158	4,550,569	983,925	4,717,627	1,102,083
Construction in Progress	292,317	224,350	0	2,487,433	292,317	2,711,783
<b>Totals</b>	<b>\$ 3,056,362</b>	<b>\$ 2,580,918</b>	<b>\$ 12,567,261</b>	<b>\$ 11,828,475</b>	<b>\$ 15,623,623</b>	<b>\$ 14,409,393</b>

The \$1,214,230 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 11 provides capital asset activity during the 2005 year.

**City of Martins Ferry**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*(Unaudited)*

**Debt**

The outstanding debt for the City as of December 31, 2005 was \$10,296,475 with \$231,587 due within one year. Table 4 summarizes outstanding debt.

**(Table 4)**  
**Outstanding Debt, at December 31**

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		2005	2004
	2005	2004	2005	2004		
Installment Loans	\$ 10,623	\$ 19,503	\$ 15,660	\$ 31,928	\$ 26,283	\$ 51,431
General Obligation Bonds	18,000	27,000	0	0	18,000	27,000
OPWC Loans	8,776	9,277	17,500	18,500	26,276	27,777
OWDA Loans	0	0	9,389,807	8,348,430	9,389,807	8,348,430
Police and Fire Pension	196,109	199,404	0	0	196,109	199,404
Long-Term BAN's	560,000	645,000	80,000	90,000	640,000	735,000
<i>Total</i>	<u>\$ 793,508</u>	<u>\$ 900,184</u>	<u>\$ 9,502,967</u>	<u>\$ 8,488,858</u>	<u>\$ 10,296,475</u>	<u>\$ 9,389,042</u>

Additional information concerning the City's debt can be found in Note 17 to the basic financial statements.

***Contacting the City's Finance Department***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rita Randall, Auditor of Martins Ferry, Ohio, City Building, Martins Ferry, or mfauditor@1st.net.

**City of Martins Ferry**  
*Statement of Net Assets*  
*December 31, 2005*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,250,036	\$ 188,001	\$ 1,438,037
Investments	1,604,852	0	1,604,852
Taxes Receivable	959,413	0	959,413
Accounts Receivable	265,297	257,783	523,080
Accrued Interest Receivable	1,901	0	1,901
Intergovernmental Receivable	619,362	0	619,362
Loans Receivable	57,750	0	57,750
Materials and Supplies Inventory	34,304	53,075	87,379
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	6,899	6,899
Non-Depreciable Capital Assets	1,167,958	158,570	1,326,528
Depreciable Capital Assets, Net	1,888,404	12,408,691	14,297,095
<i>Total Assets</i>	<u>7,849,277</u>	<u>13,073,019</u>	<u>20,922,296</u>
<b>Liabilities</b>			
Accounts Payable	61,424	25,299	86,723
Accrued Wages	29,726	22,060	51,786
Contracts Payable	77,033	34,399	111,432
Intergovernmental Payable	122,887	65,602	188,489
Customer Deposits Payable	0	6,899	6,899
Accrued Interest Payable	11,940	1,706	13,646
Deferred Revenue	368,528	0	368,528
Long-Term Liabilities:			
Due Within One Year	48,914	256,894	305,808
Due in More Than One Year	807,551	9,355,495	10,163,046
<i>Total Liabilities</i>	<u>1,528,003</u>	<u>9,768,354</u>	<u>11,296,357</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,458,963	3,064,295	5,523,258
Restricted for Capital Outlay	1,874,691	0	1,874,691
Restricted for Other Purposes	916,500	0	916,500
Unrestricted	1,071,120	240,370	1,311,490
<i>Total Net Assets</i>	<u>\$ 6,321,274</u>	<u>\$ 3,304,665</u>	<u>\$ 9,625,939</u>

See accompanying notes.

**City of Martins Ferry**  
**Statement of Activities**  
For the Year Ended December 31, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 710,251	\$ 83,086	\$ 0	\$ 0	\$ (627,165)	\$ 0	\$ (627,165)
Security of Persons and Property	1,781,039	578,772	62,912	0	(1,139,355)	0	(1,139,355)
Public Health Services	85,159	34,134	2,116	0	(48,909)	0	(48,909)
Leisure Time Activities	91,459	0	0	0	(91,459)	0	(91,459)
Community and Economic Development	290,747	3,300	25,766	167,520	(94,161)	0	(94,161)
Transportation	573,579	0	440,980	0	(132,599)	0	(132,599)
Interest and Fiscal Charges	28,712	0	0	0	(28,712)	0	(28,712)
<i>Total Governmental Activities</i>	<u>3,560,946</u>	<u>699,292</u>	<u>531,774</u>	<u>167,520</u>	<u>(2,162,360)</u>	<u>0</u>	<u>(2,162,360)</u>
<b>Business-Type Activities:</b>							
Water Fund	1,914,752	2,572,959	1,099	0	0	659,306	659,306
Sanitation Fund	622,672	586,886	0	0	0	(35,786)	(35,786)
Sewer Fund	249,987	266,930	0	120	0	17,063	17,063
Parking Meter Fund	41,221	49,781	0	0	0	8,560	8,560
Off Street Parking Fund	5	0	0	0	0	(5)	(5)
<i>Total Business-Type Activities</i>	<u>2,828,637</u>	<u>3,476,556</u>	<u>1,099</u>	<u>120</u>	<u>0</u>	<u>649,138</u>	<u>649,138</u>
<i>Total - Primary Government</i>	<u>\$ 6,389,583</u>	<u>\$ 4,175,848</u>	<u>\$ 532,873</u>	<u>\$ 167,640</u>	<u>(2,162,360)</u>	<u>649,138</u>	<u>(1,513,222)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					118,245	0	118,245
Other Purposes					161,709	0	161,709
Income Taxes Levied for General Purposes					1,129,100	0	1,129,100
Grants and Entitlements not Restricted to Specific Programs					458,893	0	458,893
Investment Earnings					148,304	0	148,304
Miscellaneous					81,588	43,274	124,862
<i>Total General Revenues</i>					<u>2,097,839</u>	<u>43,274</u>	<u>2,141,113</u>
Transfers					<u>(18,358)</u>	<u>18,358</u>	<u>0</u>
<i>Total General Revenues and Transfers</i>					<u>2,079,481</u>	<u>61,632</u>	<u>2,141,113</u>
<i>Change in Net Assets</i>					<u>(82,879)</u>	<u>710,770</u>	<u>627,891</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>6,404,153</u>	<u>2,593,895</u>	<u>8,998,048</u>
<i>Net Assets End of Year</i>					<u>\$ 6,321,274</u>	<u>\$ 3,304,665</u>	<u>\$ 9,625,939</u>

See accompanying notes.



**City of Martins Ferry**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2005*

	General	Street Maintenance & Repair	Fire Apparatus Levy III	Fire & Ambulance	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Equity in Pooled Cash and Cash Equivalents	\$ 235,553	\$ 53,688	\$ 30,028	\$ 158,119	\$ 422,006	\$ 350,642	\$ 1,250,036
Investments	0	0	0	0	1,460,000	144,852	1,604,852
Taxes Receivable	611,138	0	87,011	0	0	261,264	959,413
Accounts Receivable	54,610	0	0	210,687	0	0	265,297
Accrued Interest Receivable	1,706	0	0	0	0	195	1,901
Intergovernmental Receivable	153,835	174,181	2,087	0	0	289,259	619,362
Loans Receivable	57,750	0	0	0	0	0	57,750
Materials and Supplies Inventory	31,581	2,487	0	0	0	236	34,304
<i>Total Assets</i>	<u>\$ 1,146,173</u>	<u>\$ 230,356</u>	<u>\$ 119,126</u>	<u>\$ 368,806</u>	<u>\$ 1,882,006</u>	<u>\$ 1,046,448</u>	<u>\$ 4,792,915</u>
<b>Liabilities</b>							
Accounts Payable	\$5,582	\$6,093	\$0	\$1,884	\$0	\$47,865	\$61,424
Accrued Wages	17,827	5,935	0	5,032	0	932	29,726
Contracts Payable	0	0	0	0	77,033	0	77,033
Intergovernmental Payable	88,342	13,911	0	13,179	0	7,455	122,887
Deferred Revenue	554,667	111,630	89,098	150,031	0	529,276	1,434,702
<i>Total Liabilities</i>	<u>666,418</u>	<u>137,569</u>	<u>89,098</u>	<u>170,126</u>	<u>77,033</u>	<u>585,528</u>	<u>1,725,772</u>
<b>Fund Balances</b>							
Reserved for Encumbrances	46,368	187	0	6,150	44,051	18,093	114,849
Reserved for Inventory	31,581	2,487	0	0	0	236	34,304
Reserved for Loans Receivable	57,750	0	0	0	0	0	57,750
Unreserved, Undesignated, Reported in:							
General Fund	344,056	0	0	0	0	0	344,056
Special Revenue Funds	0	90,113	30,028	192,530	0	373,773	686,444
Capital Projects Funds	0	0	0	0	1,760,922	68,818	1,829,740
<i>Total Fund Balances</i>	<u>479,755</u>	<u>92,787</u>	<u>30,028</u>	<u>198,680</u>	<u>1,804,973</u>	<u>460,920</u>	<u>3,067,143</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,146,173</u>	<u>\$ 230,356</u>	<u>\$ 119,126</u>	<u>\$ 368,806</u>	<u>\$ 1,882,006</u>	<u>\$ 1,046,448</u>	<u>\$ 4,792,915</u>

See accompanying notes.

**City of Martins Ferry**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2005*

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**Total Governmental Fund Balances** \$ 3,067,143

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

Capital assets used in governmental activities are not financial  
 resources and therefore are not reported in the funds 3,056,362

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

Property Taxes	\$ 274,864	
Income Taxes	127,857	
Intergovernmental	458,812	
Charges for Services	<u>204,641</u>	
Total		1,066,174

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

OPWC Loan	(8,776)	
Installment Loans Payable	(10,623)	
Long - Term Bond Anticipation Notes	(560,000)	
General Obligation Bonds	(18,000)	
Accrued Interest Payable	(11,940)	
Police and Fire Pension	(196,109)	
Compensated Absences	<u>(62,957)</u>	
Total		<u>(868,405)</u>

*Net Assets of Governmental Activities* \$ 6,321,274

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*December 31, 2005*

	General	Street Maintenance & Repair	Fire Apparatus Levy III	Fire & Ambulance	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Property Taxes	\$ 196,577	\$ 0	\$ 68,839	\$ 0	\$ 0	\$ 172,390	\$ 437,806
Income Taxes	1,039,687	0	0	0	0	0	1,039,687
Charges for Services	0	0	0	500,286	0	50,702	550,988
Licenses and Permits	49,995	0	0	0	0	8,108	58,103
Fines and Forfeitures	28,419	0	0	0	0	2,556	30,975
Intergovernmental	492,388	327,080	38,024	4,000	0	574,557	1,436,049
Interest	143,188	309	0	0	0	4,807	148,304
Rent	3,300	0	0	0	0	0	3,300
Other	65,592	8,336	0	1,561	0	6,099	81,588
<i>Total Revenues</i>	<u>2,019,146</u>	<u>335,725</u>	<u>106,863</u>	<u>505,847</u>	<u>0</u>	<u>819,219</u>	<u>3,786,800</u>
<b>Expenditures</b>							
Current:							
General Government	564,767	0	0	0	0	111,223	675,990
Security of Persons and Property	1,099,114	0	246,484	465,260	0	243,519	2,054,377
Public Health Services	26,710	0	0	0	0	53,244	79,954
Leisure Time Activities	0	0	0	0	0	54,772	54,772
Community and Economic Development	0	0	0	0	0	289,407	289,407
Transportation	0	532,314	0	0	0	103,196	635,510
Capital Outlay	0	0	0	0	198,410	0	198,410
Debt Service:	0	0	0	0	0	1,992	1,992
Principal Retirement	8,880	0	625,000	0	0	32,796	666,676
Interest and Fiscal Charges	432	0	0	0	6,101	8,247	14,780
<i>Total Expenditures</i>	<u>1,699,903</u>	<u>532,314</u>	<u>871,484</u>	<u>465,260</u>	<u>204,511</u>	<u>898,396</u>	<u>4,671,868</u>
<i>Excess of Revenues Over (Under)</i> <i>Expenditures</i>	<u>319,243</u>	<u>(196,589)</u>	<u>(764,621)</u>	<u>40,587</u>	<u>(204,511)</u>	<u>(79,177)</u>	<u>(885,068)</u>
<b>Other Financing Sources (Uses)</b>							
Transfers In	0	149,000	0	0	0	93,992	242,992
Proceeds of Notes	0	0	550,000	0	0	10,000	560,000
Transfers Out	(261,350)	0	0	0	0	0	(261,350)
<i>Total Other Financing Sources (Uses)</i>	<u>(261,350)</u>	<u>149,000</u>	<u>550,000</u>	<u>0</u>	<u>0</u>	<u>103,992</u>	<u>541,642</u>
<i>Net Change in Fund Balance</i>	57,893	(47,589)	(214,621)	40,587	(204,511)	24,815	(343,426)
<i>Fund Balance Beginning of Year - Restated (See Note 3)</i>	421,862	142,088	244,649	158,093	2,009,484	436,105	3,412,281
Decrease in Reserve for Inventory	0	(1,712)	0	0	0	0	(1,712)
<i>Fund Balance End of Year</i>	<u>\$ 479,755</u>	<u>\$ 92,787</u>	<u>\$ 30,028</u>	<u>\$ 198,680</u>	<u>\$ 1,804,973</u>	<u>\$ 460,920</u>	<u>\$ 3,067,143</u>

See accompanying notes.

**City of Martins Ferry**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
December 31, 2005*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (343,426)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	\$ 712,619	
Current Year Depreciation	<u>(237,175)</u>	
 Total		 475,444

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

Delinquent Property Taxes	(157,852)	
Deferred Income Taxes	89,413	
Charges for Services	55,926	
Intergovernmental	<u>(277,862)</u>	
 Total		 (290,375)

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

Installment Loan Principal	8,880	
General Obligation Bonds Principal	654,000	
OPWC Loan Principal	501	
Police and Fire Principal	<u>3,295</u>	
 Total		 666,676

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (11,940)

Loan proceeds in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (560,000)

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.

Compensated Absences	(17,546)	
Change in Inventory	<u>(1,712)</u>	
 Total		 <u>(19,258)</u>

*Change in Net Assets of Governmental Activities* \$ (82,879)

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 32,383	\$ 196,578	\$ 196,577	\$ (1)
Income Taxes	174,617	1,059,992	1,059,992	0
Licenses and Permits	113,327	49,996	49,995	(1)
Fines and Forfeitures	64,420	28,420	28,419	(1)
Intergovernmental	1,111,517	490,364	490,363	(1)
Interest	316,277	139,531	145,234	5,703
Rent	0	0	3,300	3,300
Other	131,930	58,203	65,592	7,389
<i>Total Revenues</i>	<u>1,944,471</u>	<u>2,023,084</u>	<u>2,039,472</u>	<u>16,388</u>
<b>Expenditures</b>				
Current:				
General Government	528,758	582,063	575,891	6,172
Security of Persons and Property	1,144,965	1,133,623	1,116,150	17,473
Public Health Services	28,000	26,710	26,710	0
Debt Service:				
Principal Retirement	0	8,881	8,880	1
Interest and Fiscal Charges	0	496	495	1
<i>Total Expenditures</i>	<u>1,701,723</u>	<u>1,751,773</u>	<u>1,728,126</u>	<u>23,647</u>
<i>Excess of Revenues Over Expenditures</i>	<u>242,748</u>	<u>271,311</u>	<u>311,346</u>	<u>40,035</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Loans	56,045	24,725	24,725	0
Transfers Out	(179,000)	(265,350)	(261,350)	4,000
Other Financing Sources	45,894	36,640	20,247	(16,393)
<i>Total Other Financing Sources (Uses)</i>	<u>(77,061)</u>	<u>(203,985)</u>	<u>(216,378)</u>	<u>(12,393)</u>
<i>Net Change in Fund Balance</i>	165,687	67,326	94,968	27,642
<i>Fund Balance Beginning of Year</i>	109,851	109,851	109,851	0
Prior Year Encumbrances Appropriated	5,979	5,979	5,979	0
<i>Fund Balance End of Year</i>	<u>\$ 281,517</u>	<u>\$ 183,156</u>	<u>\$ 210,798</u>	<u>\$ 27,642</u>

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Street Maintenance & Repair Fund*  
*For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Intergovernmental	\$ 280,506	\$ 302,876	\$ 315,217	\$ 12,341
Interest	286	309	309	0
Other	19,151	20,678	20,678	0
<i>Total Revenues</i>	<u>299,943</u>	<u>323,863</u>	<u>336,204</u>	<u>12,341</u>
<b>Expenditures</b>				
Current:				
Transportation	480,624	552,872	538,683	14,189
<i>Total Expenditures</i>	<u>480,624</u>	<u>552,872</u>	<u>538,683</u>	<u>14,189</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(180,681)</u>	<u>(229,009)</u>	<u>(202,479)</u>	<u>26,530</u>
<b>Other Financing Sources</b>				
Transfer-In	137,995	149,000	149,000	0
Proceeds of Loans	57,212	61,775	61,775	0
<i>Total Other Financing Sources</i>	<u>195,207</u>	<u>210,775</u>	<u>210,775</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	14,526	(18,234)	8,296	26,530
<i>Fund Balance Beginning of Year</i>	96,449	96,449	96,449	0
Prior Year Encumbrances Appropriated	5,121	5,121	5,121	0
<i>Fund Balance End of Year</i>	<u>\$ 116,096</u>	<u>\$ 83,336</u>	<u>\$ 109,866</u>	<u>\$ 26,530</u>

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire Apparatus Levy III Fund*  
*For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 62,000	\$ 68,839	\$ 68,839	\$ 0
Intergovernmental	28,306	38,025	38,024	(1)
<i>Total Revenues</i>	<u>90,306</u>	<u>106,864</u>	<u>106,863</u>	<u>(1)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	261,961	252,367	252,114	253
Debt Service:				
Principal Retirement	625,000	625,000	625,000	0
Interest and Fiscal Charges	11,000	10,688	10,688	0
<i>Total Expenditures</i>	<u>897,961</u>	<u>888,055</u>	<u>887,802</u>	<u>253</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(807,655)</u>	<u>(781,191)</u>	<u>(780,939)</u>	<u>252</u>
<b>Other Financing Sources</b>				
Proceeds of Loans	573,194	770,000	770,000	0
<i>Net Change in Fund Balance</i>	(234,461)	(11,191)	(10,939)	252
<i>Fund Balance at Beginning of Year</i>	<u>290,967</u>	<u>290,967</u>	<u>290,967</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$ 56,506</u>	<u>\$ 279,776</u>	<u>\$ 280,028</u>	<u>\$ 252</u>

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Fire and Ambulance Fund  
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for Services	\$ 618,175	\$ 503,709	\$ 503,708	\$ (1)
Intergovernmental	4,909	4,000	4,000	0
Other	1,916	1,561	1,561	0
<i>Total Revenues</i>	<u>625,000</u>	<u>509,270</u>	<u>509,269</u>	<u>(1)</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	302,500	505,292	462,189	43,103
<i>Total Expenditures</i>	<u>302,500</u>	<u>505,292</u>	<u>462,189</u>	<u>43,103</u>
<i>Net Change in Fund Balance</i>	322,500	3,978	47,080	43,102
<i>Fund Balance at Beginning of Year</i>	101,468	101,468	101,468	0
Prior Year Encumbrances Appropriated	1,537	1,537	1,537	0
<i>Fund Balance at End of Year</i>	<u>\$ 425,505</u>	<u>\$ 106,983</u>	<u>\$ 150,085</u>	<u>\$ 43,102</u>

See accompanying notes.



**City of Martins Ferry**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2005*

	Water	Sanitation	Other Enterprise Funds	Totals
<b>Assets:</b>				
<i>Current Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 74,944	\$ 15,511	\$ 97,546	\$ 188,001
Accounts Receivable	212,820	30,434	14,529	257,783
Materials and Supplies Inventory	52,456	371	248	53,075
<i>Total Current Assets</i>	<u>340,220</u>	<u>46,316</u>	<u>112,323</u>	<u>498,859</u>
<i>Non-Current Assets:</i>				
<i>Restricted Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	3,769	3,130	0	6,899
Non-Depreciable Capital Assets	153,570	5,000	0	158,570
Depreciable Capital Assets, Net	12,281,113	65,281	62,297	12,408,691
<i>Total Non-Current Assets</i>	<u>12,438,452</u>	<u>73,411</u>	<u>62,297</u>	<u>12,574,160</u>
<i>Total Assets</i>	<u>12,778,672</u>	<u>119,727</u>	<u>174,620</u>	<u>13,073,019</u>
<b>Liabilities</b>				
<i>Current Liabilities:</i>				
Accounts Payable	14,954	9,570	775	25,299
Accrued Wages	14,575	5,332	2,153	22,060
Contracts Payable	34,399	0	0	34,399
Customer Deposits Payable	3,769	3,130	0	6,899
Intergovernmental Payable	42,195	15,095	8,312	65,602
Compensated Absences Payable	44,369	2,423	0	46,792
Accrued Interest Payable	1,706	0	0	1,706
Installment Loan Payable	0	15,660	0	15,660
OPWC Loan Payable	1,000	0	0	1,000
OWDA Loans Payable	193,442	0	0	193,442
<i>Total Current Liabilities</i>	<u>350,409</u>	<u>51,210</u>	<u>11,240</u>	<u>412,859</u>
<i>Long-Term Liabilities:</i>				
Compensated Absences Payable - net of current portion	31,215	22,780	8,635	62,630
Notes Payable - net of current portion	80,000	0	0	80,000
OPWC Loan Payable - net of current portion	16,500	0	0	16,500
OWDA Loans Payable - net of current portion	9,196,365	0	0	9,196,365
<i>Total Long-Term Liabilities</i>	<u>9,324,080</u>	<u>22,780</u>	<u>8,635</u>	<u>9,355,495</u>
<i>Total Liabilities</i>	<u>9,674,489</u>	<u>73,990</u>	<u>19,875</u>	<u>9,768,354</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,947,376	54,622	62,297	3,064,295
Unrestricted	156,807	(8,885)	92,448	240,370
<i>Total Net Assets</i>	<u>\$ 3,104,183</u>	<u>\$ 45,737</u>	<u>\$ 154,745</u>	<u>\$ 3,304,665</u>

See accompanying notes.

**City of Martins Ferry**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Year Ended December 31, 2005*

	Enterprise Funds			Totals
	Water	Sanitation	Other Enterprise Funds	
<b>Operating Revenue</b>				
Charges for Services	\$ 2,572,959	\$ 586,886	\$ 316,711	\$ 3,476,556
Other	13,245	22,001	8,028	43,274
<i>Total Operating Revenues</i>	<u>2,586,204</u>	<u>608,887</u>	<u>324,739</u>	<u>3,519,830</u>
<b>Operating Expenses</b>				
Personal Services	1,035,462	364,025	232,690	1,632,177
Contractual Services	9,122	201,974	21,110	232,206
Materials and Supplies	210,060	26,369	27,746	264,175
Depreciation	434,392	28,892	9,667	472,951
<i>Total Operating Expenses</i>	<u>1,689,036</u>	<u>621,260</u>	<u>291,213</u>	<u>2,601,509</u>
<i>Operating Income (Loss)</i>	<u>897,168</u>	<u>(12,373)</u>	<u>33,526</u>	<u>918,321</u>
<b>Non-Operating Revenues (Expenses)</b>				
Intergovernmental	1,099	0	0	1,099
Interest and Fiscal Charges	(225,716)	(1,412)	0	(227,128)
Special Assessments	0	0	120	120
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(224,617)</u>	<u>(1,412)</u>	<u>120</u>	<u>(225,909)</u>
<i>Income (Loss) Before Transfers</i>	672,551	(13,785)	33,646	692,412
Operating Transfer In	20,350	9,000	0	29,350
Operating Transfer Out	0	0	(10,992)	(10,992)
<i>Change in Net Assets</i>	692,901	(4,785)	22,654	710,770
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>2,411,282</u>	<u>50,522</u>	<u>132,091</u>	<u>2,593,895</u>
<i>Net Assets End of Year</i>	<u>\$ 3,104,183</u>	<u>\$ 45,737</u>	<u>\$ 154,745</u>	<u>\$ 3,304,665</u>

See accompanying notes.

**City of Martins Ferry**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended December 31, 2005

	Enterprise Funds			Totals
	Water	Sanitation	Other Enterprise Funds	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash flows from Operating Activities</b>				
Cash Received from Customers	\$ 2,569,525	\$ 588,026	\$ 317,889	\$ 3,475,440
Other Operating Receipts	49,372	26,232	12,259	87,863
Cash Payments to Suppliers for Goods and Services	(222,048)	(26,713)	(28,102)	(276,863)
Cash Payments for Employees Services and Benefits	(1,018,069)	(359,133)	(231,553)	(1,608,755)
Cash Payments for Contractual Services	(24,375)	(208,122)	(20,965)	(253,462)
<i>Net Cash Provided by Operating Activities</i>	<u>1,354,405</u>	<u>20,290</u>	<u>49,528</u>	<u>1,424,223</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Intergovernmental Receipts	1,099	0	0	1,099
Special Assessments	0	0	120	120
Transfers In	20,350	9,000	0	29,350
Transfers Out	0	0	(10,992)	(10,992)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>21,449</u>	<u>9,000</u>	<u>(10,872)</u>	<u>19,577</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Notes	80,000	0	0	80,000
Proceeds from OWDA Loans	1,572,717	0	0	1,572,717
Acquisition of Capital Assets	(2,307,402)	0	(6,188)	(2,313,590)
Principal Paid on OWDA Loans	(531,340)	0	0	(531,340)
Principal Paid on OPWC Loan	(1,000)	0	0	(1,000)
Principal Payments on Notes	(90,000)	(16,268)	0	(106,268)
Interest Paid on All Debt	(226,554)	(1,412)	0	(227,966)
<i>Net Cash (Used for) Capital and Related Financing Activities</i>	<u>(1,503,579)</u>	<u>(17,680)</u>	<u>(6,188)</u>	<u>(1,527,447)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(127,725)	11,610	32,468	(83,647)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>206,438</u>	<u>7,031</u>	<u>65,078</u>	<u>278,547</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 78,713</u>	<u>\$ 18,641</u>	<u>\$ 97,546</u>	<u>\$ 194,900</u>
<b>Reconciliation of Operating Income (Loss) To Net Cash Provided by Operating Activities:</b>				
Operating Income (Loss)	\$ 897,168	\$ (12,373)	\$ 33,526	\$ 918,321
Adjustments:				
Depreciation	434,392	28,892	9,667	472,951
<b>(Increase) Decrease in Assets:</b>				
Accounts Receivable	33,042	5,745	5,409	44,196
Materials and Supplies Inventory	651	(29)	(20)	602
<b>Increase (Decrease) in Liabilities:</b>				
Accounts Payable	(27,892)	(6,463)	(191)	(34,546)
Customers Deposits	(349)	(374)	0	(723)
Accrued Wages	2,033	(307)	108	1,834
Compensated Absences Payable	3,584	2,930	251	6,765
Intergovernmental Payable	11,776	2,269	778	14,823
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 1,354,405</u>	<u>\$ 20,290</u>	<u>\$ 49,528</u>	<u>\$ 1,424,223</u>

See accompanying notes.

**City of Martins Ferry**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*December 31, 2005*

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$ 31,364</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$ 31,364</u>

See accompanying notes.

**City of Martins Ferry**  
*Notes to the Basic Financial Statements*  
**December 31, 2005**

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**NOTE 1: REPORTING ENTITY AND BASIS OF PRESENTATION**

The City of Martins Ferry (the "City") is a home rule municipal corporation organized under the laws of the State of Ohio which operates under its own charter. The City is located in Belmont County, in Eastern Ohio, on the Ohio River and is the largest city in Belmont County. The City became a settlement in 1835 and was chartered as a city in 1865. Martins Ferry has a land area of 4,352 square acres and a 2001 census population of 7,226.

The City operates under a Mayor/Council form of government. Legislative power is vested in an eight member Council, each elected for two year terms, and other elected officials that include a Mayor, Auditor, Treasurer, and Law Director. The Mayor appoints the department directors and public members of various boards and commissions.

***Reporting Entity***

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statements No. 14, "The Financial Reporting Entity" and No. 39, "Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14".

The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, water and water pollution control, sanitation, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore these operations are included in the primary government.

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

The City is involved with the Belmont Metropolitan Housing Authority, Eastern Ohio Regional Transit Authority, Ohio Mid-Eastern Governments Association, Jefferson-Belmont Joint Solid Waste Authority, Eastern Ohio Regional Wastewater Authority, and Bel-O-Mar Regional Council which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 20.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

**A. Basis of Presentation**

The City'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 City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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 City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

**Fund Financial Statements** During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

**City of Martins Ferry**  
*Notes to the Basic Financial Statements (Continued)*  
**December 31, 2005**

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

**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 is the City's major governmental funds:

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Street Maintenance and Repair Fund** The Street Maintenance and Repair Special Revenue Fund is required by the Ohio Revised Code to account for state gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.

**Fire Apparatus Levy III Fund** The Fire Apparatus Levy III Special Revenue Fund is used to account for property taxes levied in the City for the purchase of an aerial fire truck.

**Fire and Ambulance Fund** The Fire and Ambulance Special Revenue Fund is used to account for fees charged and collected for ambulance services.

**Permanent Improvement Fund** The Permanent Improvement Capital Projects Fund is used to account for financial resources for the acquisition and construction of improvements to the City.

The other governmental funds of the City 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. The following is the City's proprietary funds type:

**Enterprise Funds** Enterprise funds may be using to account for any activity for which a fee is charged to external users for goods or services. The water and sanitation funds are the City's major enterprise funds.

**Water Fund** The Water Fund accounts for the provision of water service to the residents and commercial users located within the City.

**Sanitation Fund** The Sanitation Fund accounts for the provision of sanitation service to the residents and commercial users located within the City.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

***Fiduciary Funds*** Fiduciary funds 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 City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for money received and held until distribution requirement to others is met upon final plan approval.

***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) 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 resources) 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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities.

***D. Basis of Accounting***

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



**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

**Revenues – Exchange and Non-Exchange Transactions** Revenues 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 City, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 8.) Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, 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 December 31, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

***E. Budgetary Data***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

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

***F. Pooled Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating certificates of deposit and repurchase agreements, which are reported at cost.

During fiscal year 2005, the City's investments were limited to certificates of deposit and overnight sweep accounts.

Investment procedures are restricted by the provisions of the Ohio Revised Code and the City's investment policy. Interest revenue credited to the General Fund during 2005 amounted to \$143,188, which includes \$131,494 assigned from other City funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

***G. Materials and Supplies Inventory***

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies.

***H. Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Customer deposits have been restricted in the enterprise funds because the deposit remains the property of the customer. The restricted asset account is balanced by a customer deposit payable liability account.

***I. Capital Assets***

General capital assets are capital assets which are associated and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital 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. Capital assets utilized by proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and are updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of \$5,000. 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. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

All reported capital assets, except for land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings	40 - 50 Years
Pump Station Water Towers	40 Years
Equipment and Machinery	3 - 25 Years
Vehicles	5 - 10 Years
Sewer and Water Mains	30 - 40 Years
Infrastructure	15 - 50 Years

City management chose not to retroactively record general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Infrastructure assets acquired or constructed after January 1, 2004 are recorded in Governmental Activities and depreciation expense was recorded on those assets.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due. The unmatured portion of these obligations should be reported as general long-term liabilities segregated between amounts due in one year and amounts due in more than one year.

***K. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City 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 City's termination policy.

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

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

***K. Compensated Absences (Continued)***

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***L. Fund Balance Reserves***

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent 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 balance reserves have been established for encumbrances, materials and supplies inventory and loans receivable.

***M. 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 constitutional provisions, enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net assets restricted for other purposes include recreation, street construction and repair, and the operation of the police and fire departments.

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

***N. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sanitation, and sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

***O. Interfund Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

***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 City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

***Q. Estimates***

The preparation of the 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.

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS**

***Change in Accounting Principles*** For fiscal year 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have a significant effect on the financial statements of the City. Refer to Note 6 for additional documentation concerning GASB Statement No. 40.

***Restatement of Fund Balance*** Due to the implementation of GASB Technical Bulletin No. 2004-2 beginning fund balance was restated to reflect the change in intergovernmental payables. The only major fund impacted by this implementation was the General Fund. During 2005 it was noted that the note payables recorded in the General Fund, Street Maintenance and Repair Fund, Fire Apparatus Levy III Fund, Fire and Ambulance Fund, Recreation Fund - a non major fund, and the Water Fund should have been recorded to the Permanent Improvement Fund.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)**

	General	Street Maintenance & Repair	Fire Apparatus Levy III	Fire & Ambulance	Permanent Improvement	Other Governmental	Total
Fund Balances 12/31/04	\$ 425,964	\$ 80,313	\$ 24,649	\$ 158,093	\$ 2,359,484	\$ 410,605	\$ 3,459,108
GASB Bulletin No. 2004-2	(28,827)						(28,827)
Correction of Notes Payable	24,725	61,775	220,000	0	(350,000)	25,500	(18,000)
Fund Balance 1/1/05	<u>\$ 421,862</u>	<u>\$ 142,088</u>	<u>\$ 244,649</u>	<u>\$ 158,093</u>	<u>\$ 2,009,484</u>	<u>\$ 436,105</u>	<u>\$ 3,412,281</u>

Governmental Activities Net Assets, 12/31/04 \$6,422,153

**Prior Period Adjustment:**

Correction of Notes Payable (18,000)

Governmental Activities Net Assets, 1/1/05 \$6,404,153

As a result of the error correction, short term notes payable decreased \$18,000. In addition the long term debt balance in the Water Fund at December 31, 2004 was overstated by \$10,000.

	Water
Net Assets 12/31/04	\$ 2,383,282
Correction of Notes Payable	18,000
Reduction in Ending Balance of Long Term Debt	<u>10,000</u>
Net Assets 1/1/05	<u>\$ 2,411,282</u>

**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the General Fund, the Street Maintenance and Repair, the Fire Apparatus Levy III, and Fire and Ambulance major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)**

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budget basis statements for the General Fund, the Street Maintenance and Repair, the Fire Apparatus Levy III, and the Fire and Ambulance major special revenue funds:

**Net Change in Fund Balance**

	General	Street Maintenance and Repair	Fire Apparatus Levy III	Fire and Ambulance
GAAP Basis	\$ 57,893	\$ (47,589)	\$ (214,621)	\$ 40,587
Revenue Accruals	65,298	62,254	220,000	3,422
Expenditure Accruals	21,257	(772)	(16,318)	11,105
Encumbrances	(49,480)	(5,597)	0	(8,034)
Budget basis	\$ 94,968	\$ 8,296	\$ (10,939)	\$ 47,080

**NOTE 5: A. FUND DEFICITS**

The Water and Sewer Grant non-major enterprise fund had a fund deficit balance at December 31, 2005 in the amount of \$1,202.

The deficit in this fund resulted from contractor invoices exceeding debt proceeds. The General Fund is liable for any deficit in this fund.

**NOTE 5: B. COMPLIANCE**

The following funds had appropriations which exceeded estimated revenue plus unencumbered balances contrary to Section 5705.39, Revised Code:

Fund	Estimated Resources	Appropriations	Variance
Water	\$2,110,001	\$2,159,715	(\$49,714)
Sanitation	\$626,058	\$632,207	(\$6,149)
Water Replacement & Improvement	\$1,572,717	\$2,161,700	(\$588,983)

The City will keep better control of the budget and to be sure that the appropriations are kept in line with the amended certificate.



**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 6: DEPOSITS AND INVESTMENTS**

The City maintains a cash deposit and investment pool for all funds. Each fund's share of cash deposits and investments is shown separately on the statement of net assets and balance sheets as "Equity in Pooled Cash and Cash Equivalents."

State statutes classify monies held by the City into three categories.

Active deposits are public monies determined to be necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City 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 City 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 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 the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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

6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

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. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the City may not be able to recover deposits or collateral securities that are in the possession of an outside party.

At fiscal year-end, the carrying amount of the City's deposits was \$3,081,152 and the bank balance was \$3,121,923. Of the City's bank balance \$300,000 was covered by the Federal Deposit Insurance Corporation and \$2,821,923 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by FDIC.

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

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 7: INTERFUND TRANSFERS**

Following is a summary of interfund transfers in and out for all funds for 2005:

<u>Transfer To</u>	<u>Transfer From</u>		
	<u>General</u>	<u>Sewer</u>	<u>Total</u>
Major Funds:			
Street Maintenance and Repair	\$ 149,000	\$ 0	\$ 149,000
Water	20,350	0	20,350
Sanitation	9,000	0	9,000
Nonmajor Funds:			
Recreation	50,000	0	50,000
Cemetery	15,000	0	15,000
Patton's Run	0	10,992	10,992
Safety Service	18,000	0	18,000
<b>Total</b>	<b>\$ 261,350</b>	<b>\$ 10,992</b>	<b>\$ 272,342</b>

The General Fund transfers to the other funds were made to provide additional resources for current operations and capital improvements. The Sewer Fund transferred funds to the Pattons Run Fund for the payment of debt.

**NOTE 8: PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes were levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 8: PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2005 was \$8.60 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$ 55,193,610
Tangible Personal Property	18,242,780
Public Utilities	<u>4,511,240</u>
Total	<u>\$ 77,947,630</u>

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 later payment dates to be established.

Tangible personal property taxes paid 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.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Martins Ferry. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2005, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

**NOTE 9: RECEIVABLES**

Receivables at December 31, 2005 consisted of taxes, accounts (billings for user charged services), mortgage loans, interest and intergovernmental receivables arising from entitlements and shared revenues. All receivables are deemed collectible in full.

The General Fund reflects mortgage loans receivable of \$57,750. These mortgage loans receivable are for financing of the sale of City property to individuals as a home mortgage. The mortgages bear interest at annual rates between five and seven percent. The mortgages are to be repaid over periods ranging from five to thirty years.

**City of Martins Ferry**  
*Notes to the Basic Financial Statements (Continued)*  
**December 31, 2005**

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**NOTE 9: RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local Government Funding	\$145,180
Homestead/Rollback	17,518
Motor Vehicle License and Gas Tax Fund Grants	188,304
Permissive Tax Fund Grant	14,972
CDBG Grant Funds	<u>253,388</u>
Total	<u><u>\$619,362</u></u>

**NOTE 10: INCOME TAX**

The City levies a municipal income tax of .75 percent on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside the City; however, the City allows a credit for income taxes paid to another municipality up to 100 percent of the City's current rate.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purpose of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services, facilities and capital improvements of the City as determined by City Council. In 2005, the proceeds were allocated to the General Fund.

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**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 11: CAPITAL ASSETS**

A summary of changes in capital assets during 2005 follows:

	Balance 01/01/05	Additions	Reductions	Balance 12/31/05
<b>Governmental Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 860,641	\$ 15,000	\$ 0	\$ 875,641
Construction in Progress	224,350	94,456	(26,489)	292,317
<i>Total Capital Assets Not Being Depreciated</i>	1,084,991	109,456	(26,489)	1,167,958
<i>Capital Assets, Being Depreciated:</i>				
Buildings	1,705,241	0	0	1,705,241
Building Improvements	753,805	102,739	0	856,544
Equipment and Machinery	331,277	44,146	0	375,423
Infrastructure	118,670	53,300	0	171,970
Vehicles	2,428,629	429,467	0	2,858,096
<i>Total Capital Assets, Being Depreciated</i>	5,337,622	629,652	0	5,967,274
<i>Less Accumulated Depreciation:</i>				
Buildings	(968,778)	(31,875)	0	(1,000,653)
Building Improvements	(655,459)	(19,875)	0	(675,334)
Equipment and Machinery	(293,543)	(11,271)	0	(304,814)
Infrastructure	(512)	(4,400)	0	(4,912)
Vehicles	(1,923,403)	(169,754)	0	(2,093,157)
<i>Total Accumulated Depreciation</i>	(3,841,695)	(237,175)	0	(4,078,870)
<i>Total Capital Assets, Being Depreciated, Net</i>	1,495,927	392,477	0	1,888,404
<i>Total Governmental Activities Capital Assets, Net</i>	\$ 2,580,918	\$ 501,933	\$ (26,489)	\$ 3,056,362

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 49,261
Security of Persons and Property	96,985
Public Health Services	5,205
Transportation	47,817
Community and Economic Development	1,220
Leisure Time Activities	36,687
Total	\$ 237,175

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 11: CAPITAL ASSETS (Continued)**

	Balance 1/1/2005	Additions	Reductions	Balance 12/31/2005
<b>Business-Type Activities</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 158,570	\$ 0	\$ 0	\$ 158,570
Construction in Progress	2,487,433	1,155,496	(3,642,929)	0
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,646,003</u>	<u>1,155,496</u>	<u>(3,642,929)</u>	<u>158,570</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	5,892,172	0	0	5,892,172
Building Improvements	1,044,196	0	0	1,044,196
Equipment and Machinery	6,407,183	6,188	(22,502)	6,390,869
Infrastructure	1,229,906	3,642,929	0	4,872,835
Vehicles	668,977	72,555	0	741,532
<i>Total Capital Assets, Being Depreciated</i>	<u>15,242,434</u>	<u>3,721,672</u>	<u>(22,502)</u>	<u>18,941,604</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,277,613)	(148,262)	0	(1,425,875)
Building Improvements	(135,993)	(50,010)	0	(186,003)
Equipment and Machinery	(3,794,775)	(165,151)	0	(3,959,926)
Infrastructure	(245,981)	(76,285)	0	(322,266)
Vehicles	(605,600)	(33,243)	0	(638,843)
<i>Total Accumulated Depreciation</i>	<u>(6,059,962)</u>	<u>(472,951)</u>	<u>0</u>	<u>(6,532,913)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>9,182,472</u>	<u>3,248,721</u>	<u>(22,502)</u>	<u>12,408,691</u>
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 11,828,475</u>	<u>\$ 4,404,217</u>	<u>\$ (3,665,431)</u>	<u>\$ 12,567,261</u>

**NOTE 12: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; employee injuries, and natural disasters. To address these various risks, the City belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000 up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000, with the General Reinsurance Corporation, through contracts with PEP.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 12: RISK MANAGEMENT (Continued)**

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005:

<u>Casualty Coverage</u>	<u>2005</u>
Assets	\$29,719,675
Liabilities	(15,994,168)
Retained earnings	<u>\$13,725,507</u>



**City of Martins Ferry**  
*Notes to the Basic Financial Statements (Continued)*  
**December 31, 2005**

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**NOTE 12: RISK MANAGEMENT (Continued)**

<u>Property Coverage</u>	<u>2005</u>
Assets	\$4,443,332
Liabilities	<u>(1,068,245)</u>
Retained earnings	<u>\$3,375,087</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The City's share of these unpaid claims is approximately \$86,182.

There was no reduction in insurance coverage from coverage in the prior year and insurance was sufficient to cover settlements in 2003, 2004, and 2005.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs to provide coverage to employees for job related injuries.

**NOTE 13: DEFINED BENEFIT PENSION PLANS**

**A. Public Employees Retirement System (PERS)**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent.. The Ohio Revised Code provides statutory authority for member and employer contributions..

**City of Martins Ferry**  
*Notes to the Basic Financial Statements (Continued)*  
**December 31, 2005**

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**NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Public Employees Retirement System (PERS) (Continued)**

The City's required contributions for pension obligations to all three plans for the years ended December 31, 2005, 2004 and 2003 were \$181,110, \$223,174 and \$208,266, respectively. The full amount has been contributed for 2004 and 2003. 92 percent has been contributed for 2005 with the remainder being presented as "intergovernmental payable" in the governmental activities column of the statement of net assets.

**B. Ohio Police and Fire Pension Fund (OP&F)**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers. Contributions are authorized by state statute. The City's contributions to the OP&F for police was \$103,260 for the year ended December 31, 2005, \$69,546 for the year ended December 31, 2004, and \$81,214 for 2003. The full amount has been contributed for 2004 and 2003. 72.39 percent has been contributed for 2005 with the remainder being presented as "intergovernmental payable" in the government activities column of the statement of net assets.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2005, the unfunded liability of the City was \$196,109, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is included in "Long-Term Liabilities" in the governmental activities column of the statements of net assets.

**NOTE 14: POSTEMPLOYMENT BENEFITS**

**A. Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 percent of covered payroll was the portion that was used to fund health care.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 14:      POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$75,858. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

***B. Ohio Police and Fire Pension Fund (OP&F)***

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**City of Martins Ferry**  
*Notes to the Basic Financial Statements (Continued)*  
**December 31, 2005**

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**NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)**

***B. Ohio Police and Fire Pension Fund (OP&F) (Continued)***

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$41,039 for police. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

***C. Social Security System***

Effective July 1, 1991, all employees not otherwise covered by a State Retirement System have an option to choose social security or the appropriate state system. As of December 31, 2005, no City employees have elected social security.

**NOTE 15: OTHER EMPLOYEE BENEFITS**

The City provides life insurance and accidental death and dismemberment insurance to all union employees as well as all non-union full-time employees, excluding elected officials. The amount of the life insurance policy for the union employees is based on the employee's rate of pay while the police receive a \$20,000 policy and all City supervisors receive a \$20,000 policy.

The City contracts with a local Health Management Organization, Health Plan of the Upper Ohio Valley, for hospitalization insurance for all employees. The City pays \$848.17 of the total monthly premiums of \$893.17 for family coverage and \$298.52 of the monthly premiums of \$343.50 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries. City AFSCME Union employees pay \$45.00 of the total premium. City full-time police pay \$75.00 for family coverage and \$50.00 for single coverage.

The City contracts with Met Life for dental insurance for all supervisors and police. The City pays 100 percent of the total monthly premiums of \$75.53 for family coverage, \$43.90 for employees with only one dependent, and \$22.66 for single coverage. Premiums are paid from the same funds that pay the employees' salaries. The City contracts with Ohio AFSCME Care Plan for dental insurance for all union employees. The City pays 100 percent of the total monthly premiums of \$34.00 per union employee. Premiums are paid from the same funds that pay the employees' salaries.

**NOTE 16: COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates depending upon length of service and type of employment. Vacation leave benefits are lost at year end if employees do not use these balances during the year unless prior approval has been obtained from the department head. Upon retirement or death, employees are paid to a maximum of 480 hours for accumulated unused sick leave. Police are paid upon retirement and completion of twenty-five years of service. Police receive payment for a maximum of 480 hours. As of December 31, 2005, the liability for unpaid compensated absences was \$172,379.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 17: LONG-TERM OBLIGATIONS**

The original issue date, maturity date, interest rate and original issuance amount for the City's debt follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities:</b>			
Pattons Run Picoma General Obligation Bonds - 1987	7.375%	\$ 160,000	December 1, 2007
Police Cruiser Installment Loan - 2004	3.35	20,915	March 1, 2007
Police Cruiser Installment Loan - 2002	4.43	20,581	March 11, 2005
St. Route 647 OPWC Loan - 2003	0.00	10,029	July 1, 2023
Long-Term Bond Anticipation Notes -			
Truck Acquisition Note - 2005	3.27	250,000	May 11, 2006
Aerial Fire Truck Note - 2005	3.27	300,000	May 11, 2006
Street and Sidewalk Improvement Note - 2005	3.27	10,000	May 11, 2006
<b>Business-Type Activities:</b>			
Ferryview/Sharon Road Waterlines OWDA Loan	2.00	3,697,909	January 1, 2025
Water Treatment Plant OWDA Loan	2.00	10,369,123	January 1, 2022
Woodmont OPWC Loan - 2003	0.00	20,000	July 1, 2023
Packer Installment Loan - 2002	4.99	62,361	December 1, 2006
Long-Term Bond Anticipation Note -			
Water System Improvement Note - 2005	3.27	80,000	May 11, 2006

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**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

A schedule of changes in bonds and other long-term obligations of the City during 2005 follows:

	Restated Outstanding 1/1/2005	Additions	Deletions	Outstanding 12/31/2005	Due in One Year
<b>Governmental Activities:</b>					
Installment Loans:					
Police Cruiser	\$ 15,885	\$ 0	\$ (6,911)	\$ 8,974	\$ 7,149
Police Cruiser	3,618	0	(1,969)	1,649	1,649
<i>Total installment loans</i>	19,503	0	(8,880)	10,623	8,798
General Obligation Bonds	27,000	0	(9,000)	18,000	9,000
OPWC Loan	9,277	0	(501)	8,776	250
Long-Term Bond Anticipation					
Notes:					
Street and Sidewalk Improvement					
Note - 3.27%	20,000	10,000	(20,000)	10,000	0
Fire Equipment Improvement					
Note - 3.27%	275,000	250,000	(275,000)	250,000	0
Fire Equipment Improvement					
Note - 3.27%	350,000	300,000	(350,000)	300,000	0
<i>Total Long-Term Bond</i>					
<i>Anticipation Notes</i>	645,000	560,000	(645,000)	560,000	0
Police and Fire Pension	199,404	0	(3,295)	196,109	3,437
Compensated Absences	45,411	17,546	0	62,957	27,429
<i>Total Governmental Activities</i>	<u>\$ 945,595</u>	<u>\$ 577,546</u>	<u>\$ (666,676)</u>	<u>\$ 856,465</u>	<u>\$ 48,914</u>
<b>Business-Type Activities:</b>					
OWDA Loans:					
Ferryview/Sharon Road Waterlines	\$ 757,755	\$ 1,572,717	\$ (152,042)	2,178,430	\$ 0
Water Treatment plant	7,590,675	0	(379,298)	7,211,377	193,442
<i>Total OWDA Loans</i>	8,348,430	1,572,717	(531,340)	9,389,807	193,442
OPWC Loan	18,500	0	(1,000)	17,500	1,000
Installment Loan (Packer Loan)	31,928	0	(16,268)	15,660	15,660
Long-Term Bond Anticipation Note:					
Water System Improvement					
Note - 3.27%	90,000	80,000	(90,000)	80,000	0
Compensated Absences	102,657	6,765	0	109,422	46,792
<i>Total Business-Type Activities</i>	<u>\$ 8,591,515</u>	<u>\$ 1,659,482</u>	<u>\$ (638,608)</u>	<u>\$ 9,612,389</u>	<u>\$ 256,894</u>

General obligation bonds will be paid from revenue derived from charges for services in the enterprise funds. The OWDA loans will be repaid with Water Fund revenues. The OPWC loan was issued for the repair of State Route 647 road slippage. The loan will be repaid from General Fund local government revenues.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

The installment loans were issued to purchase police cruisers for the City. The payments will be made from tax revenues. The police and fire pension liability will be paid from general property tax revenues. Compensated absences will be paid from the fund from which the employee's salaries are paid.

The installment loan for the purchase of a garbage truck will be paid from revenue received from charges for service in the Sanitation Fund.

The Ohio Water Development Authority (OWDA) approved a \$3,697,909 loan to the City on March 28, 2003 for improvements to the City's water system. \$2,178,430 has been drawn down by the City as of December 31, 2005. Upon completion of the project, the loan will be repaid over a period of twenty years. Since the total amount of the loan has not been determined, it is not included in the amortization schedule below.

The City was awarded a \$20,000 Ohio Public Works Commission Loan in 2003 to help pay the costs of the Woodmont Pump Station Replacement Project. The loan will be repaid with intergovernmental revenues from the Issue II Fund.

The long-term bond anticipation notes issued on May 12, 2005 for \$640,000 were used to partially retire the \$745,000 bond anticipation notes issued May 13, 2004. These notes were issued for the purpose of the street and sidewalk improvements, fire equipment improvements, and water system improvements. The notes were rolled over on May 11, 2006, and are not included in the amortization schedules. See subsequent event Note 22.

The City's overall legal debt margin was \$6,417,888 at December 31, 2005.

Principal and interest requirements to retire governmental activities debt at December 31, 2005 are as follows:

Year	General Obligation Bonds		Police and Fire Pension		Installment Loans		OPWC Loan	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2006	\$ 9,000	\$ 1,328	\$ 3,437	\$ 8,300	\$ 8,798	\$ 214	\$ 251	\$ 21,486	\$ 9,842
2007	9,000	664	3,584	8,152	1,825	15	501	14,910	8,831
2008	0	0	3,739	7,998	0	0	501	4,240	7,998
2009	0	0	3,899	7,837	0	0	501	4,400	7,837
2010	0	0	4,067	7,670	0	0	501	4,568	7,670
2011-2015	0	0	23,108	35,576	0	0	2,508	25,616	35,576
2016-2020	0	0	28,515	30,168	0	0	2,507	31,022	30,168
2021-2025	0	0	35,179	23,495	0	0	1,506	36,685	23,495
2026-2030	0	0	43,433	15,261	0	0	0	43,433	15,261
2031-2035	0	0	47,148	7,328	0	0	0	47,148	7,328
Totals	\$ 18,000	\$ 1,992	\$ 196,109	\$ 151,785	\$ 10,623	\$ 229	\$ 8,776	\$ 233,508	\$ 154,006

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

Principal and interest requirements to retire business-type activities debt at December 31, 2005 are as follows:

Year	OWDA Loans		OPWC Loan	Installment Loan		Total	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2006	\$ 193,442	\$ 72,114	\$ 1,000	\$ 15,660	\$ 578	\$ 210,102	\$ 72,692
2007	390,752	140,359	1,000	0	0	391,752	140,359
2008	398,567	132,544	1,000	0	0	399,567	132,544
2009	406,539	124,572	1,000	0	0	407,539	124,572
2010	414,670	116,442	1,000	0	0	415,670	116,442
2011-2015	2,201,116	454,439	5,000	0	0	2,206,116	454,439
2016-2020	2,430,210	225,345	5,000	0	0	2,435,210	225,345
2021-2025	776,081	20,585	2,500	0	0	778,581	20,585
Totals	<u>\$ 7,211,377</u>	<u>\$ 1,286,400</u>	<u>\$ 17,500</u>	<u>\$ 15,660</u>	<u>\$ 578</u>	<u>\$ 7,244,537</u>	<u>\$ 1,286,978</u>

The City has entered into contractual agreements for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and then add them to the total amounts of the final loans. These loans will not have an accurate repayment schedule until the loans are finalized and, therefore, are not included in the schedule of future annual debt service requirements.

The balances of these loans are as follows:

OWDA Loans:	
Ferryview/Sharon Rd. Waterlines	<u>\$ 2,178,430</u>

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**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

**NOTE 18: SHORT - TERM NOTES PAYABLE**

A summary of the short term note transactions for the year ended December 31, 2005, follows:

	Restated Outstanding 1/1/2005	Additions	Retired	Outstanding 12/31/2005
<b>Governmental Activities</b>				
City Building Repair Note - 2.50%	\$ 24,725	\$ 0	\$ (24,725)	\$ 0
Street Department Garage Repair Note - 2.50%	61,775	0	(61,775)	0
Fire Truck Note - 2.50%	220,000	0	(220,000)	0
Water Building Repair Note - 2.50%	18,000	0	(18,000)	0
Recreation Roof - 2.50%	25,500	0	(25,500)	0
<b>Total</b>	<b>\$ 350,000</b>	<b>\$ 0</b>	<b>\$ (350,000)</b>	<b>\$ 0</b>

**NOTE 19: CONTRACTUAL COMMITMENTS**

As of December 31, 2005 the City had a contractual commitment for the following project:

	Commitment	Expended	12/31/2005
Gannett Fleming Engineers & Architects, PC - design of Sharon and Ferryview water system improvement project	\$ 146,000	\$ 131,376	\$ 14,624
Seneca Valley - Sharon and Ferryview water system improvement project	2,300,700	1,810,541	490,159
Caldwell Tanks - Sharon and Ferryview water system improvement project	917,980	868,130	49,850
Yeneka Construction - Sharon and Ferryview water system improvement project	56,550	26,747	29,803
TH Enterprises - Darrah Road paving	196,528	188,284	8,244
Bridgeport Construction - Waste Transfer Station site prep	96,245	26,435	69,810
J and J Refuse - Waste Transfer Station equipment	51,275	0	51,275
<b>Total</b>	<b>\$ 3,765,278</b>	<b>\$ 3,051,513</b>	<b>\$ 713,765</b>

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 20: JOINTLY GOVERNED ORGANIZATIONS**

***A. Belmont Metropolitan Housing Authority***

Belmont Metropolitan Housing Authority is a non-profit organization established to provide adequate public housing for low income individuals and is statutorily created as a separate and distinct political subdivision of the State. The Authority is operated by a five member board of commissioners. Two members are appointed by the Mayor of Martins Ferry, one member is appointed by the Belmont County Commissioners, one member is appointed by the judge of the probate court, and one member is appointed by the judge of the court of common pleas. The City did not contribute any amounts to the Authority during 2005. The continued existence of the Authority is not dependent on the City's continued participation and no equity interest exists. The Authority has no outstanding debt for which the City of Martins Ferry is responsible.

***B. Eastern Ohio Regional Transit Authority***

Eastern Ohio Regional Transit Authority was established to provide transportation to the residents of the Ohio Valley and is statutorily created as a separate and distinct political subdivision of the State. The Authority is operated by a board of directors that is appointed by the nine Mayors of the municipalities served by the Authority. The City did not contribute any amounts to the Authority during 2005. The continued existence of the Authority is not dependent on the City's continued participation and no equity interest exists. The Authority has no outstanding debt for which the City of Martins Ferry is responsible.

***C. Ohio Mid-Eastern Governments Association (OMEGA)***

Ohio Mid-Eastern Governments Association (OMEGA) is a ten-county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas Counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of Martins Ferry serves as the City's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2005, OMEGA received \$1,084 from the City of Martins Ferry for an annual fee. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debt.

***D. Jefferson-Belmont Joint Solid Waste Authority***

Jefferson-Belmont Joint Solid Waste Authority is established by state statutes and is operated to provide solid waste services to Jefferson and Belmont counties. The Authority is governed by a fourteen member board of directors of which the Mayor of the City of Martins Ferry is a member. The Authority is not dependent on the City of Martins Ferry for its continued existence, no debt exists, and the City does not maintain an equity interest. The City does not make any monetary contributions to the District.

**City of Martins Ferry**  
**Notes to the Basic Financial Statements (Continued)**  
**December 31, 2005**

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**NOTE 20: JOINTLY GOVERNED ORGANIZATIONS (Continued)**

***E. Eastern Ohio Regional Wastewater Authority***

Eastern Ohio Regional Wastewater Authority is established by Ohio Revised Code Section 6119, serving the municipalities of Bellaire, Brookside, and Martins Ferry. The Authority is operated by a four member Board of Trustees. One member of the Board is appointed by the Mayor of Martins Ferry. The Authority is not dependent on the City of Martins Ferry for its continued existence and the City does not maintain an equity interest. The City does not make any monetary contributions to the District.

***F. Bel-O-Mar Regional Council***

Bel-O-Mar Regional Council is operated as a non-profit organization formed to provide planning and administrative services to all local governments in a four county region comprised of Belmont County, Ohio and three counties in West Virginia. The governing board is comprised of 58 officials from the four county service area of which three members and one alternate member are appointed by Belmont County and one member is appointed by each local government within Belmont County. The Mayor of the City of Martins Ferry serves as the City's representative on the board. The Council is not dependent upon the City of Martins Ferry for its continued existence, no debt exists, and the City does not maintain an equity interest. During 2005, Bel-O-Mar Regional Council received \$2,023 from the City of Martins Ferry for annual fees and grant administration services.

**NOTE 21: CONTINGENCIES**

***A. Grants***

The City 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 effect on the overall financial position of the City at December 31, 2005.

***B. Litigation***

The City of Martins Ferry is currently party to several claims and lawsuits. In the opinion of the City Law Director, the outcome of these claims will not have a material effect on the financial statements of the City of Martins Ferry.

**NOTE 22: SUBSEQUENT EVENTS**

On May 11, 2006, the May 13, 2005 street and sidewalk, fire equipment, and water system improvement bond anticipation notes in the amount of \$640,000 were rolled over into bond anticipation notes in the amount of \$568,000. The notes have an interest rate of 5 percent and mature on May 10, 2007.

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**Auditor of State  
Betty Montgomery**

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

City of Martins Ferry  
Belmont County  
Fifth and Walnut Streets  
P.O. Box 386  
Martins Ferry, Ohio 43935

To Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Martins Ferry, Belmont County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated September 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring about whether the City's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the City's management dated September 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
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We intend this report solely for the information and use of the audit committee, management, and City Council. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

September 22, 2006

**CITY OF MARTINS FERRY  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

<b>FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the estimated revenue available for expenditure there from, as certified by the County Budget Commission.

As of December 31, 2005, appropriations exceeded estimated revenue plus unencumbered balances in the following funds:

<b>Fund</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Variance</b>
Water	\$2,110,001	\$2,159,715	(\$49,714)
Sanitation	626,058	632,207	(6,149)
Water Replacement & Improvement	1,572,717	2,161,700	(588,983)

This situation may lead to disbursements within said funds exceeding the actual revenues available.

We recommend the City Council and the City Auditor monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. This will help to reduce the risk of disbursements exceeding actual revenues available and will add a measure of control over the City's budgetary process.

**Officials' Response**

The City Auditor intends to keep better control of the budget and will be sure that appropriations are kept in line with the amended certificate.

**CITY OF MARTINS FERRY  
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Section 5705.36(A)(2) for not properly obtaining a reduced amended certificate.	Yes	N/A.
2004-002	Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	Yes	N/A.





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**CITY OF MARTINS FERRY**

**BELMONT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 19, 2006**