



**Auditor of State
Betty Montgomery**

**STEUBENVILLE CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Steubenville City School District
Jefferson County
936 North Fifth Street
Steubenville, Ohio 43952

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Steubenville City School District, Jefferson County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do 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 be read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

April 28, 2006

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

The discussion and analysis of the Steubenville City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities increased \$1,030,085.
- General revenues accounted for \$14,733,515 in revenue or 63 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$8,475,561 or 37 percent of total revenues of \$23,209,076.
- Total assets of governmental activities increased \$675,355 primarily due to increased cash and cash equivalents as well as an increase in taxes receivable resulting from the triennial update, which are slightly offset by depreciation expense on capital assets.
- The School District had \$22,178,991 in expenses related to governmental activities; only \$8,475,561 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$14,733,515 were adequate to provide for these programs.
- The School District has three major funds, the general fund, debt service fund, and permanent improvement fund. The general fund had \$15,775,398 in revenues and \$16,185,540 in expenditures and other financing uses. The general fund's balance decreased \$410,142. The debt service fund had \$1,210,902 in revenues and other financing sources and \$1,135,155 in expenditures. The debt service fund's balance increased \$75,747. The permanent improvement fund had \$1,000,000 in other financing sources and \$115,701 in expenditures. The permanent improvement fund's balance increased \$884,299.

Using this Annual Financial Report

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

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$21,520,779	\$20,380,515
Capital Assets	21,418,828	21,883,737
Total Assets	42,939,607	42,264,252
Liabilities		
Long-Term Liabilities	11,377,424	11,843,062
Other Liabilities	6,845,267	6,734,359
Total Liabilities	18,222,691	18,577,421
Net Assets		
Invested in Capital Assets	12,505,574	12,285,493
Restricted	8,040,696	6,734,743
Unrestricted	4,170,646	4,666,595
Total Net Assets	\$24,716,916	\$23,686,831

Total assets increased \$675,355. Current assets increased by \$1,140,264 primarily due to an increase in cash and cash equivalents and taxes receivable. This increase was offset slightly by a decrease in intergovernmental receivable due to timely receipts of federal funding during fiscal year 2005. The decrease in capital assets was due to depreciation expense recorded for fiscal year 2005.

Total liabilities decreased \$354,730, due primarily to a decrease in intergovernmental and claims payable. This decrease was offset by increases in accrued wages and benefits payable. Long-term liabilities also decreased during fiscal year 2005 by principal repayments.

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

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

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues		
Charges for Services	\$2,269,111	\$2,237,637
Operating Grants and Contributions	6,171,003	6,485,445
Capital Grants and Contributions	35,447	94,725
Total Program Revenues	8,475,561	8,817,807
General Revenues		
Property Taxes	5,060,296	4,047,578
Grants and Entitlements not Restricted to Specific Programs	9,087,770	8,848,334
Others	585,449	301,867
Total General Revenues	14,733,515	13,197,779
Total Revenues	23,209,076	22,015,586
Program Expenses		
Instruction		
Regular	8,581,078	8,265,606
Special	4,103,625	4,058,477
Vocational	867,183	834,252
Support Services		
Pupil	1,035,636	1,065,231
Instructional Staff	669,667	680,712
Board of Education	44,321	53,231
Administration	1,556,216	1,703,541
Fiscal	375,717	334,209
Business	131,244	170,775
Operation and Maintenance of Plant	2,084,687	2,032,152
Pupil Transportation	330,093	284,683
Central	11,895	13,120
Operation of Non-Instructional Services	515,482	316,068
Food Service Operations	744,107	734,531
Extracurricular Activities	514,689	583,223
Interest and Fiscal Charges	613,351	620,242
Total Expenses	22,178,991	21,750,053
Increase in Net Assets	\$1,030,085	\$265,533

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

In 2005, 22 percent of the School District's revenues were from property taxes and 39 percent were from unrestricted grants and entitlements. Property taxes had a significant increase from the prior year primarily due to the change in the amount available as an advance on the August tax settlement from prior years as well as realizing a full year collection from the triennial update. Unrestricted grants and entitlements increased by \$239,436.

Instructional programs comprise approximately 61 percent of total governmental program expenses. Of the instructional expenses, approximately 63 percent is for regular instruction, 30 percent for special instruction, and 7 percent for vocational instruction. Instructional program expenses increased \$393,551, or approximately 3 percent from the prior fiscal year due to the continuing increase in salaries and benefits.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2005 compared to fiscal year 2004. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction				
Regular	\$8,581,078	\$8,265,606	\$5,110,087	\$4,770,683
Special	4,103,625	4,058,477	1,746,586	1,483,979
Vocational	867,183	834,252	710,738	678,769
Support Services				
Pupil	1,035,636	1,065,231	706,743	724,954
Instructional Staff	669,667	680,712	239,092	398,923
Board of Education	44,321	53,231	44,321	53,231
Administration	1,556,216	1,703,541	1,345,861	1,454,573
Fiscal	375,717	334,209	372,986	313,432
Business	131,244	170,775	117,569	158,170
Operation and Maintenance of Plant	2,084,687	2,032,152	2,011,706	1,815,578
Pupil Transportation	330,093	284,683	322,889	271,468
Central	11,895	13,120	1,675	(11,967)
Operation of Non-Instructional Services	515,482	316,068	84,793	(61,848)
Food Service Operations	744,107	734,531	34,908	32,333
Extracurricular Activities	514,689	583,223	240,125	229,726
Interest and Fiscal Charges	613,351	620,242	613,351	620,242
Total Expenses	\$22,178,991	\$21,750,053	\$13,703,430	\$12,932,246

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

The dependence upon tax revenues and state subsidies for governmental activities is apparent as 62 percent of expenses are supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had \$15,775,398 in revenues and \$16,185,540 in expenditures and other financing uses, the Debt Service fund had \$1,210,902 in revenues and other financing sources and \$1,135,155 in expenditures, and the Permanent Improvement Fund had \$1,000,000 in other financing sources and \$115,701 in expenditures. Overall, including the transfers, the General Fund's balance decreased \$410,142, the Debt Service Fund's balance increased \$75,747, and the Permanent Improvement Fund's balance increased \$884,299.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were significant changes between the original and final budgeted appropriations resulting from the original budgeted amount for transfers being higher than the final due to the District anticipating moving more funds into the permanent improvement fund for building improvements. In addition, the School District used a conservative estimate for intergovernmental revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$21,418,828 invested in land, buildings, furniture, equipment and vehicles. See note 9 for more detailed information of the School District's capital assets.

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

Debt

At June 30, 2005, the School District had \$9,763,998 in bonds, loans, and capital leases outstanding.

Table 4
Outstanding Debt at Year End
Governmental Activities

	2005	2004
1993 High School Addition and Improvement Serial Bonds	\$675,000	\$705,000
1998 Refunding Bonds-Serial, Term, and Capital Appreciation Bond	6,151,611	6,495,736
2000 School Facilities Serial, Term, and Capital Appreciation Bonds	2,912,068	3,005,720
Energy Conservation Loans	20,938	52,960
Capital Leases	4,381	7,349
Total	\$9,763,998	\$10,266,765

See note 15 for more detailed information on the School District's debt.

Economic Factors

In August of 2004, the Steubenville City Schools Board of Education and the Steubenville Education Association entered into agreement on a 3-year contract, effective from September 1, 2004 through August 31, 2007.

In fiscal year 2005, the Project B.E.S.T. (Building Excellent Schools for Tomorrow) program was initiated, and the district was awarded state funding from the Ohio School Facilities Commission (OSFC) to restructure and improve the District schools. The plan includes remodeling the high school, restructuring the middle school, and consolidating the existing five elementary schools into three schools by year 2008. Taxpayers were spared the burden of funding the local share of the project, as the needed local funds were secured through private donations and a qualified zone academy bond (QZAB), an interest-free loan for 16 years. See Subsequent Event Note 20 for further details.

In June of 2005, Garfield School was closed for 2 years for remodeling and the District Administration Office was permanently closed at its present location. During the remodeling period, the Garfield students will be transferred to other District schools for their education. Demolition of the District Administration Office building along with 2 other District owned buildings began during the summer of 2005 to make way for the new addition to Garfield School. The District office was temporarily moved to Garfield School for one year.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Teresa DeCaria, Treasurer/CFO at Steubenville City School District, 932 North Fifth Street, Steubenville, Ohio 43952.

Steubenville City School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$14,933,932
Accrued Interest Receivable	20,918
Intergovernmental Receivable	37,115
Prepaid Items	262,615
Materials and Supplies Inventory	18,036
Property Taxes Receivable	6,248,163
Non-Depreciable Capital Assets	5,822,000
Depreciable Capital Assets, Net	15,596,828
<i>Total Assets</i>	42,939,607
Liabilities	
Accounts Payable	21,028
Accrued Wages and Benefits Payable	1,817,449
Matured Severance Payable	16,337
Vacation Benefits Payable	12,549
Intergovernmental Payable	461,163
Accrued Interest Payable	32,642
Claims Payable	265,677
Deferred Revenue	4,218,422
Long-Term Liabilities:	
Due Within One Year	787,677
Due In More Than One Year	10,589,747
<i>Total Liabilities</i>	18,222,691
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,505,574
Restricted for:	
Debt Service	1,433,686
Capital Outlay	4,585,975
Set Asides	85,496
Other Purposes	1,935,539
Unrestricted	4,170,646
<i>Total Net Assets</i>	\$24,716,916

See accompanying notes to the basic financial statements.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$8,581,078	\$1,685,342	\$1,785,649	\$0	(\$5,110,087)
Special	4,103,625	101,172	2,234,681	21,186	(1,746,586)
Vocational	867,183	0	156,445	0	(710,738)
Support Services:					
Pupil	1,035,636	32,286	296,607	0	(706,743)
Instructional Staff	669,667	256	430,319	0	(239,092)
Board of Education	44,321	0	0	0	(44,321)
Administration	1,556,216	0	210,355	0	(1,345,861)
Fiscal	375,717	0	2,731	0	(372,986)
Business	131,244	0	13,675	0	(117,569)
Operation and Maintenance of Plant	2,084,687	22,975	50,006	0	(2,011,706)
Pupil Transportation	330,093	0	0	7,204	(322,889)
Central	11,895	0	10,220	0	(1,675)
Operation of Non-Instructional Services	515,482	10,623	413,009	7,057	(84,793)
Extracurricular Activities	514,689	274,564	0	0	(240,125)
Food Service Operations	744,107	141,893	567,306	0	(34,908)
Interest and Fiscal Charges	613,351	0	0	0	(613,351)
<i>Total Governmental Activities</i>	<u>\$22,178,991</u>	<u>\$2,269,111</u>	<u>\$6,171,003</u>	<u>\$35,447</u>	<u>(13,703,430)</u>

General Revenues

Property Taxes Levied for General Purposes	3,930,494
Property Taxes Levied for Debt Service	1,046,439
Property Taxes Levied for Building Maintenance	83,363
Grants and Entitlements not Restricted to Specific Programs	9,087,770
Gifts and Donations	120,000
Investment Earnings	295,606
Miscellaneous	169,843
<i>Total General Revenues</i>	<u>14,733,515</u>
Change in Net Assets	1,030,085
<i>Net Assets Beginning of Year</i>	<u>23,686,831</u>
<i>Net Assets End of Year</i>	<u>\$24,716,916</u>

See accompanying notes to the basic financial statements.

Steubenville City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$4,222,071	\$1,092,640	\$4,586,732	\$2,229,831	\$12,131,274
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	216,832	0	0	0	216,832
Receivables:					
Property Taxes	4,898,775	1,249,339	0	100,049	6,248,163
Intergovernmental	37,115	0	0	0	37,115
Accrued Interest	20,918	0	0	0	20,918
Prepaid Items	140,300	0	0	122,315	262,615
Materials and Supplies Inventory	11,952	0	0	6,084	18,036
<i>Total Assets</i>	<u>\$9,547,963</u>	<u>\$2,341,979</u>	<u>\$4,586,732</u>	<u>\$2,458,279</u>	<u>\$18,934,953</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$2,875	\$0	\$757	\$17,396	\$21,028
Accrued Wages and Benefits	1,238,098	0	0	579,351	1,817,449
Matured Severance Payable	0	0	0	16,337	16,337
Intergovernmental Payable	364,056	0	0	97,107	461,163
Deferred Revenue	4,514,868	1,128,196	0	90,441	5,733,505
<i>Total Liabilities</i>	<u>6,119,897</u>	<u>1,128,196</u>	<u>757</u>	<u>800,632</u>	<u>8,049,482</u>
Fund Balances					
Reserved for Encumbrances	326,535	0	28,272	384,867	739,674
Reserved for Property Taxes	435,469	121,143	0	9,608	566,220
Reserved for Budget Stabilization	85,496	0	0	0	85,496
Reserved for Bus Purchases	131,336	0	0	0	131,336
Unreserved:					
Designated for Budget Stabilization	183,341	0	0	0	183,341
Designated for Textbooks	789,813	0	0	0	789,813
Designated for Capital Maintenance	130,893	0	0	0	130,893
Undesignated, Reported in:					
General Fund	1,345,183	0	0	0	1,345,183
Special Revenue Funds	0	0	0	1,263,172	1,263,172
Debt Service Funds	0	1,092,640	0	0	1,092,640
Capital Projects Funds	0	0	4,557,703	0	4,557,703
<i>Total Fund Balances</i>	<u>3,428,066</u>	<u>1,213,783</u>	<u>4,585,975</u>	<u>1,657,647</u>	<u>10,885,471</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,547,963</u>	<u>\$2,341,979</u>	<u>\$4,586,732</u>	<u>\$2,458,279</u>	<u>\$18,934,953</u>

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances \$10,885,471

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

Capital assets used in governmental activities are not financial
resources and therefore are deferred in the funds. 21,418,828

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

Grants	37,115	
Property Taxes	1,463,521	
Interest	14,447	
Total		1,515,083

An internal service fund is used by management to charge the
costs of insurance to individual funds. The assets and
liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 2,320,149

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

General Obligation Bonds	9,738,679	
Compensated Absences	1,613,426	
Vacation Benefits Payable	12,549	
Energy Conservation Loan	20,938	
Accrued Interest Payable	32,642	
Capital Leases	4,381	
Total		<u>(11,422,615)</u>

Net Assets of Governmental Activities \$24,716,916

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$3,876,658	\$1,035,016	\$0	\$82,427	\$4,994,101
Intergovernmental	9,764,346	123,506	0	5,386,268	15,274,120
Interest	258,334	19,145	0	6,607	284,086
Tuition and Fees	1,750,295	0	0	37,589	1,787,884
Extracurricular Activities	0	0	0	281,024	281,024
Rent	21,685	0	0	21,890	43,575
Contributions and Donations	4,556	0	0	65,677	70,233
Charges for Services	0	0	0	156,628	156,628
Miscellaneous	99,524	0	0	70,319	169,843
<i>Total Revenues</i>	<u>15,775,398</u>	<u>1,177,667</u>	<u>0</u>	<u>6,108,429</u>	<u>23,061,494</u>
Expenditures					
Current:					
Instruction:					
Regular	6,255,108	0	7,649	1,787,221	8,049,978
Special	2,363,054	0	0	1,758,708	4,121,762
Vocational	804,066	0	0	9,672	813,738
Support Services:					
Pupil	672,663	0	0	351,682	1,024,345
Instructional Staff	162,936	0	0	475,008	637,944
Board of Education	44,321	0	0	0	44,321
Administration	1,291,299	0	0	222,512	1,513,811
Fiscal	345,943	23,626	0	4,808	374,377
Business	121,647	0	0	12,801	134,448
Operation and Maintenance of Plant	2,033,662	0	0	90,349	2,124,011
Pupil Transportation	290,418	0	0	0	290,418
Central	0	0	0	11,296	11,296
Operation of Non-Instructional Services	0	0	0	536,188	536,188
Extracurricular Activities	203,291	0	0	258,687	461,978
Food Service Operations	0	0	0	706,606	706,606
Capital Outlay	110,474	0	108,052	89,208	307,734
Debt Service:					
Principal Retirement	2,968	682,022	0	0	684,990
Interest and Fiscal Charges	455	429,507	0	0	429,962
<i>Total Expenditures</i>	<u>14,702,305</u>	<u>1,135,155</u>	<u>115,701</u>	<u>6,314,746</u>	<u>22,267,907</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,073,093</u>	<u>42,512</u>	<u>(115,701)</u>	<u>(206,317)</u>	<u>793,587</u>
Other Financing Sources (Uses)					
Transfers In	0	33,235	1,000,000	450,000	1,483,235
Transfers Out	(1,483,235)	0	0	0	(1,483,235)
Total Other Financing Sources (Uses)	<u>(1,483,235)</u>	<u>33,235</u>	<u>1,000,000</u>	<u>450,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(410,142)	75,747	884,299	243,683	793,587
<i>Fund Balances Beginning of Year</i>	<u>3,838,208</u>	<u>1,138,036</u>	<u>3,701,676</u>	<u>1,413,964</u>	<u>10,091,884</u>
<i>Fund Balances End of Year</i>	<u>\$3,428,066</u>	<u>\$1,213,783</u>	<u>\$4,585,975</u>	<u>\$1,657,647</u>	<u>\$10,885,471</u>

See accompanying notes to the basic financial statements.

Steubenville City School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$793,587

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 asset additions exceeded depreciation in the current period.

Capital Outlay	256,389	
Depreciation	(841,298)	
Capital Asset Donation	120,000	
Total	(464,909)	(464,909)

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

Grants	(50,133)	
Property Taxes	66,195	
Interest	11,266	
Total	27,328	27,328

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

General Obligation Bonds	650,000	
Energy Conservation Loans	32,022	
Capital Leases	2,968	
Total	684,990	684,990

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities, and the accretion of interest of capital appreciation bonds is reported in the statement of activities.

Accrued Interest	(1,166)	
Accretion of Interest	(182,223)	
Total	(183,389)	(183,389)

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

Intergovernmental Payable	111,790	
Vacation Benefits Payable	36,045	
Compensated Absences	(37,129)	
Total	110,706	110,706

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. The net revenue (expense) internal service fund revenues are eliminated.

61,772

Change in Net Assets of Governmental Activities

\$1,030,085

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$3,682,997	\$3,691,591	\$3,691,591	\$0
Intergovernmental	10,165,706	9,764,334	9,770,515	6,181
Interest	150,000	226,000	251,863	25,863
Tuition and Fees	1,675,250	1,749,388	1,750,295	907
Rent	14,300	21,685	21,685	0
Contributions and Donations	1,925	4,556	4,556	0
Miscellaneous	74,550	53,387	99,524	46,137
<i>Total Revenues</i>	<u>15,764,728</u>	<u>15,510,941</u>	<u>15,590,029</u>	<u>79,088</u>
Expenditures				
Current:				
Instruction:				
Regular	6,542,089	7,575,418	6,281,708	1,293,710
Special	2,371,244	2,400,599	2,377,882	22,717
Vocational	719,782	880,210	808,371	71,839
Support Services:				
Pupils	670,337	808,301	664,907	143,394
Instructional Staff	155,313	184,106	163,811	20,295
Board of Education	86,303	86,968	42,500	44,468
Administration	1,284,415	1,392,120	1,309,797	82,323
Fiscal	301,400	391,012	347,255	43,757
Business	197,023	207,316	129,815	77,501
Operation and Maintenance of Plant	2,594,010	2,740,549	2,196,740	543,809
Pupil Transportation	398,253	486,516	309,278	177,238
Extracurricular Activities	219,054	230,847	199,114	31,733
Capital Outlay	628,586	129,086	128,937	149
<i>Total Expenditures</i>	<u>16,167,809</u>	<u>17,513,048</u>	<u>14,960,115</u>	<u>2,552,933</u>
Excess of Revenues Over (Under) Expenditures	<u>(403,081)</u>	<u>(2,002,107)</u>	<u>629,914</u>	<u>2,632,021</u>
Other Financing Sources (Uses)				
Sale of Assets	5,000	0	0	0
Advances In	76,000	0	0	0
Transfers Out	(3,154,344)	(2,484,491)	(1,483,235)	1,001,256
Advances Out	(12,000)	(186,000)	0	186,000
<i>Total Other Financing Sources (Uses)</i>	<u>(3,085,344)</u>	<u>(2,670,491)</u>	<u>(1,483,235)</u>	<u>1,187,256</u>
<i>Net Change in Fund Balance</i>	<u>(3,488,425)</u>	<u>(4,672,598)</u>	<u>(853,321)</u>	<u>3,819,277</u>
<i>Fund Balance Beginning of Year</i>	4,292,326	4,292,326	4,292,326	0
Prior Year Encumbrances Appropriated	673,363	673,363	673,363	0
<i>Fund Balance End of Year</i>	<u>\$1,477,264</u>	<u>\$293,091</u>	<u>\$4,112,368</u>	<u>\$3,819,277</u>

See accompanying notes to the basic financial statements.

Steubenville City School District

Statement of Fund Net Assets

Proprietary Fund

June 30, 2005

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,585,826
Current Liabilities	
Claims Payable	<u>265,677</u>
Net Assets	
Unrestricted	<u><u>\$2,320,149</u></u>

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activity</u> <u>Internal Service</u> <u>Fund</u>
Operating Revenues	
Charges for Services	<u>\$2,247,362</u>
Operating Expenses	
Purchased Services	418,624
Claims	<u>1,767,220</u>
<i>Total Operating Expenses</i>	<u>2,185,844</u>
<i>Operating Income</i>	61,518
Non-Operating Revenues	
Interest	<u>254</u>
<i>Change in Net Assets</i>	61,772
<i>Net Assets Beginning of Year</i>	<u>2,258,377</u>
<i>Net Assets End of Year</i>	<u><u>\$2,320,149</u></u>

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$2,247,362
Cash Payments for Services	(418,624)
Cash Payments for Claims	(1,933,143)
	(104,405)
<i>Net Cash Used for Operating Activities</i>	
Cash Flows from Investing Activities	
Interest	254
	254
<i>Net Cash Provided by Investing Activities</i>	
<i>Net Decrease in Cash and Cash Equivalents</i>	(104,151)
<i>Cash and Cash Equivalents Beginning of Year</i>	2,689,977
<i>Cash and Cash Equivalents End of Year</i>	\$2,585,826
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Income	\$61,518
Decrease in Claims Payable	(165,923)
	(104,405)
<i>Net Cash Used for Operating Activities</i>	(\$104,405)

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust Funds	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$276,583	\$26,795
Investments	72,837	0
<i>Total Assets</i>	349,420	\$26,795
Liabilities		
Due to Students	0	\$26,795
<i>Total Liabilities</i>	0	\$26,795
Net Assets		
Held in Trust for Scholarships	349,420	
<i>Total Net Assets</i>	\$349,420	

See accompanying notes to the basic financial statements.

Steubenville City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust Funds
Additions	
Contributions and Donations	\$42,375
Interest	18,105
Total Additions	60,480
Deductions	
Scholarships Awarded	53,800
<i>Net Change in Fund Balance</i>	6,680
<i>Net Assets Beginning of Year</i>	342,740
<i>Net Assets End of Year</i>	\$349,420

See accompanying notes to the basic financial statements.

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1838. The School District serves an area of approximately 8.56 square miles in the City of Steubenville. It is located in Jefferson County on the Ohio River, thirty-seven miles west of Pittsburgh, Pennsylvania. It is staffed by 89 non-certificated employees, 184 certificated full-time teaching personnel, and 17 administrative employees who provide services to 2,345 students and other community members. The School District currently operates 6 elementary schools, 1 middle school and 1 high school for instruction, and 1 administrative building.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

No separate governmental units meet the criteria for inclusion as a component unit. The following activity is included within the reporting entity:

Parochial Schools: Within the School District boundaries, Holy Rosary, All Saints Consolidated and Catholic Central High School are operated through the Steubenville Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial schools. This activity is reflected as a governmental activity and as part of the nonmajor governmental funds for financial reporting purposes.

The School District is involved with the Jefferson County Joint Vocational School, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Coalition of Rural and Appalachian Schools (CORAS) and the East Central Ohio Special Education Regional Resource Center (ECOSERRC), which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Plan which is defined as an insurance purchasing pool. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which

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

they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest, and related costs.

Permanent Improvement Fund - The permanent improvement fund is used to account for donations and general fund transfers which are used to finance various capital projects in the School District.

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

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

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

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

C. Measurement Focus

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

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

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

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 funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of 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 School District finances and meets the cash flow needs of its proprietary activity.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 6). Revenue from grants 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

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 the governmental funds.

E. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to common stock, non-negotiable certificates of deposit, and STAR Ohio.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2005.

Investments in common stock are reported at fair value, which is based on quoted market prices. Certificate of Deposits are reported at cost.

Following Ohio statues, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$258,334, which includes \$161,386, assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in governmental funds represent unexpended revenues restricted for the purchase of buses and amounts required by State Statute to be set-aside by the School District for budget stabilization. See Note 18 for additional information regarding set-asides.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. Interfund Balances

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

K. Compensated Absences

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term notes are recognized as a liability on the governmental fund financial statements when due.

M. Bond Discounts, Premiums, and Issuance Costs

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

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds.

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

N. Interfund Activity

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

O. Fund Balance Reserves/Designations

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for bus purchases is for state funds required to be utilized for the purchase of school buses.

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

Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designations reflect the Board's plans, although they may be subject to change. Designations are reported as part of unreserved fund balance. The School District reports a fund balance designation on the balance sheet for additional money set-aside by the Board of Education above the required reserve for budget stabilization, the purchase of textbooks, and capital expenditures.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for maintenance of classroom facilities, local resources to be used for student programs, and state and federal grants restricted to expenditures for specified purposes. The government-wide statement of net assets reports \$8,040,696 of restricted net assets. Of the restricted net assets, \$2,100,260 has resulted from enabling legislation.

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this determination are reported as non-operating.

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate

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

fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

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

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

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

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

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

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3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
 4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance

	General
GAAP Basis	(\$410,142)
Revenue Accruals	(185,369)
Expenditure Accruals	68,725
Encumbrances	(326,535)
Budget Basis	(\$853,321)

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing

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

Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$8,851,667 of the School District's bank balance of \$9,051,667 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

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

Investments

As of June 30, 2005, the School District had the following investments, Star Ohio is part of the internal investment pool while the mutual funds and stock are donated assets which are held for the private purpose trust fund:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>	<u>Rating</u>	<u>Rating Agency</u>
Mutual Funds	\$1,552	**	0.02%	AAA	Fitch
Mutual Funds	8,201	**	0.11%	BBB	Fitch
Common Stock	14,864	N/A	0.21%	Aa3	Moody's
Preferred Stock	1,028	N/A	0.01%	BBB	Fitch
Common Stock	1,693	N/A	0.02%	BBB	Fitch
Preferred Stock	33,172	N/A	0.46%	Baa1	Moody's
Preferred Stock	2,327	N/A	0.03%	Baa3	Moody's
Common Stock	10,094	N/A	0.14%	Baa	Moody's
STAR Ohio	<u>7,070,518</u>	30 Days	<u>98.98%</u>	AAAm	S&P
Totals	<u><u>\$7,143,355</u></u>		<u><u>100.00%</u></u>		

** Not available to the School District at June 30, 2005.

Interest Rate Risk. The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. The District's investment policy allows for the sale of negotiable instruments prior to maturity.

Credit Risk. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The investments in mutual funds and common stock are donated investments, and were not purchased by the School District. The School District has no investment policy that would further limit its investment choices.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2005 represents collections of 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property

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

taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Jefferson County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$435,469 in the general fund, \$121,143 in the debt service fund, and \$9,608 in the classroom facilities special revenue fund. The amount available as an advance at June 30, 2004, was \$250,402 in the general fund, \$71,066 in the debt service fund, and \$5,674 in the classroom facilities special revenue fund.

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

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$143,062,670	79.70%	\$143,476,600	78.92%
Public Utility Personal	11,347,410	6.32%	1,580,860	6.37%
Tangible Personal	25,100,146	14.98%	26,745,090	14.71%
	<u>\$179,510,226</u>	<u>100.00%</u>	<u>\$181,802,550</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$35.35		\$35.35

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$1,463,521 may not be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Excess Cost Reimbursement	\$37,115
Total	<u>\$37,115</u>

NOTE 8 – TRANSFERS

Interfund transfers for the year ended June 30, 2005 consisted of the following:

	Transfer to			
	Major Funds			Total
<u>Transfer from</u>	Debt Service	Permanent Improvement	Other Governmental Funds	
General Fund	\$33,235	\$1,000,000	\$450,000	<u>\$1,483,235</u>

Transfers were used to move receipts from the General Fund to the Debt Service Fund as debt service payments become due. The transfer to the Permanent Improvement Capital Projects Fund is to finance the local share of the future classroom facilities project. The transfer to the Classroom Facilities Maintenance Special Revenue Fund is in lieu of the half mill levy requirement for the upcoming school facilities project. See Subsequent Event Note 20 for further details.

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

NOTE 9 - CAPITAL ASSETS

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

	Balance 6/30/04	Additions	Deletions	Balance 6/30/05
Nondepreciable Capital Assets:				
Land	\$5,614,000	\$200,000	\$0	\$5,814,000
Construction in Progress	0	8,000	0	8,000
Total Nondepreciable Capital Assets	5,614,000	208,000	0	5,822,000
Depreciable Capital Assets:				
Land Improvements	1,983,522	0		1,983,522
Buildings and Improvements	20,681,604	0	0	20,681,604
Furniture and Equipment	1,557,813	168,389	0	1,726,202
Vehicles	1,043,126	0	0	1,043,126
Total Depreciable Capital Assets	25,266,065	168,389	0	25,434,454
Accumulated Depreciation:				
Land Improvements	(842,638)	(86,878)	0	(929,516)
Buildings and Improvements	(6,781,264)	(537,077)	0	(7,318,341)
Furniture and Equipment	(605,273)	(154,055)	0	(759,328)
Vehicles	(767,153)	(63,288)	0	(830,441)
Total Accumulated Depreciation	(8,996,328)	(841,298)	0	(9,837,626)
Total Depreciable Capital Assets, Net	16,269,737	(672,909)	0	15,596,828
Governmental Capital Assets, Net	\$21,883,737	(\$464,909)	\$0	\$21,418,828

Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$388,414
Special	79,153
Vocational	48,699
Support Services:	
Pupil	16,112
Instructional Staff	57,208
Board of Education	424
Administration	79,517
Fiscal	5,371
Operation of Maintenance and Plant	28,200
Pupil Transportation	58,252
Central	599
Extracurricular	54,383
Non Instructional Services	9,971
Food Service Operations	14,995
Total Depreciation Expense	\$841,298

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

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District contracts with McBane Insurance Agency for general liability, errors and omissions, property, and fleet insurance. The general liability coverage has limits of liability of \$1,000,000 for each occurrence and an annual aggregate of \$2,000,000. The errors and omissions coverage has limits of liability of \$1,000,000 for each wrongful act with an annual aggregate of \$1,000,000. The property coverage carries a \$2,500 deductible with total coverage of \$54,679,245. The fleet coverage has limits of liability of \$1,000,000 for each accident and \$2,000 medical payments for each accident.

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

Medical/surgical, prescription drug and dental insurance is offered to employees through a self-insurance internal service fund. The School District contracts with Medical Mutual of Ohio to provide third-party administration services of the self insurance plan. Employees have a choice to participate in a traditional plan or a preferred provider plan. The Board pays 100 percent of the premiums which are \$1,441.66 per family and \$533.49 for single for the traditional plan, or \$1,380.28 for family and \$512.12 for single coverage for the preferred provider plan per month. The premium is paid from the fund that pays the salary of the covered employee.

The claims liability of \$265,677 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

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

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claim <u>Payments</u>	Balance at End <u>of Year</u>
2004	\$274,439	2,238,590	\$2,081,429	\$431,600
2005	431,600	1,767,220	1,933,143	265,677

For fiscal year 2005 the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$202,912, \$175,802, and \$162,558 respectively; 52.58 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled

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

only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,252,746, \$1,176,571, and \$1,202,345 respectively; 82.08 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$4,135 made by the School District and \$3,938 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$92,598 for fiscal year 2005.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is

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

capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$90,847 to fund health care benefits, including the surcharge.

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

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Other Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life in the amount of \$25,000 per employee.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District has entered into capitalized leases for copying equipment.

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

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$14,065, which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported net of accumulated depreciation in the amount of \$3,282. Principal payments in fiscal year 2005 totaled \$2,968 in the governmental funds.

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

Future minimum lease payments through 2007 are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$3,214	\$209	\$3,423
2007	1,167	848	2,015
Total	<u>\$4,381</u>	<u>\$1,057</u>	<u>\$5,438</u>

NOTE 15 - LONG - TERM OBLIGATIONS

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

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due In One Year
<i>1993 High School Addition and Improvements, Series A</i>					
Serial Bonds, \$951,384 @ 5.95%	\$705,000	\$0	\$30,000	\$675,000	\$35,000
<i>1998 Refunding Bonds, \$10,515,000</i>					
Serial/Term Bonds, \$8,130,000 @ 3.5%-5.25%	5,395,000	0	500,000	4,895,000	535,000
Capital Appreciation Bonds, \$512,935 @ 4.4%-4.55%	512,935	0	0	512,935	0
Accretion of Interest, \$1,872,065 @ 13.70-13.75%	587,801	155,875	0	743,676	0
<i>2000 School Facilities Bonds, \$3,640,000</i>					
Serial/Term Bonds, \$2,960,000 @ 4.4%-5.6%	2,640,000	0	120,000	2,520,000	130,000
Capital Appreciation Bonds, \$285,000 @ 5.25%-5.5%	285,000	0	0	285,000	0
Accretion of Interest, \$395,000 @ 7.022%-7.185%	80,720	26,348	0	107,068	0
Energy Conservation Loans, \$910,778 @ 5.0% and 5.3%	52,960	0	32,022	20,938	20,938
Total Bonds and Loans	<u>10,259,416</u>	<u>182,223</u>	<u>682,022</u>	<u>9,759,617</u>	<u>720,938</u>
Capital Leases	7,349	0	2,968	4,381	3,214
Compensated Absences	1,576,297	645,941	608,812	1,613,426	63,525
Total General Long-Term Obligations	<u>\$11,843,062</u>	<u>\$828,164</u>	<u>\$1,293,802</u>	<u>\$11,377,424</u>	<u>\$787,677</u>

Capital leases will be paid from the General Fund. Compensated absences will be paid from the general, food service, miscellaneous state grants, preschool/afterschool programs, disadvantaged pupils impact aid, Title I, and the miscellaneous federal grants funds.

1993 Steubenville High School Addition and Improvement General Obligation Bonds - On January 1, 1993, the Steubenville City School District issued \$951,384 in Series A voted general obligation bonds, and \$9,698,616 in Series B voted general obligation bonds for the purpose of an addition and improvements to the high school building. The bonds were issued for a twenty-five year period with final

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

maturity at December 1, 2017. The Series B bonds were refunded in 1998, while the Series A bonds remain outstanding.

1998 Refunding General Obligation Bonds - On September 30, 1998, the School District issued \$10,515,000 in general obligation bonds. The bonds refunded \$8,643,616 of outstanding 1993 Series B School Improvement General Obligation Bonds. The bonds were issued for a 23 year period with final maturity at December 1, 2022. Principal outstanding at June 30, 2005 amounted to \$6,151,611 including current year accretion of \$155,875. \$9,653,900 (including premium and after underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 1993 Series B School Improvement Bonds. As of June 30, 2005 \$805,000 of the refunded bonds remain outstanding and are considered defeased.

The 1998 bond issue consists of serial, term, and capital appreciation bonds. The term bonds that mature in the year 2016 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2016 and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2013	\$600,000
2014	625,000
2015	660,000
2016	695,000
2017	655,000
	<u>\$3,235,000</u>

The remaining principal amount of such Current Interest Bonds (\$655,000) will mature at stated maturity on December 1, 2016.

The capital appreciation bonds for the 1998 issue mature December 1, 2008 through December 1, 2011. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$2,385,000. For fiscal year 2005, \$155,875 was accreted for a total bond liability of \$1,256,611.

2000 School Facilities General Obligation Bonds - On November 1, 2000, the School District issued \$3,640,000 in voted general obligation bonds which included capital appreciation bonds (deep discount bonds) to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2023. Principal outstanding at June 30, 2005 amounted to \$2,912,068 including current year accretion of \$26,348.

In connection with the passage of the bond issue, the School District also passed a half-mill levy for the maintenance of the new building.

The 2000 bond issue consists of serial, term, and capital appreciation bonds. The term bonds that mature December 1, 2015 through December 1, 2022 are subject to mandatory sinking fund redemption. The

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

mandatory sinking fund redemption is to occur on December 1, 2015 through December 1, 2022 as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2015	\$170,000
2016	180,000
2017	190,000
2018	200,000
2019	210,000
2020	220,000
2021	235,000
2022	250,000
	<u>\$1,655,000</u>

The capital appreciation bonds for the 2000 issue mature December 1, 2011 through December 1, 2014. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$680,000. For fiscal year 2005, \$26,348 was accreted for a total bond liability of \$392,068.

On January 24, 1996, Steubenville City School District issued \$290,659 unvoted general obligation notes for the purpose of providing additional energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2006. The loan will be retired from the debt service fund.

Annual requirements to retire general obligation debt, including loans outstanding at June 30, 2005 are as follows:

Principal and interest requirements to retire the 1993 High School Addition and Improvements 5.95% Series A Bonds outstanding at June 30, 2005 are as follows:

<u>Fiscal Year Ending June 30, 2005</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$35,000	\$41,094	\$76,094
2007	35,000	38,906	73,906
2008	40,000	36,562	76,562
2009	40,000	34,062	74,062
2010	45,000	31,406	76,406
2011-2015	270,000	110,315	380,315
2016-2018	210,000	20,313	230,313
Total	<u>\$675,000</u>	<u>\$312,658</u>	<u>\$987,658</u>

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

Principal and interest requirements to retire the 1998 Refunding Variable Interest Bonds outstanding at June 30, 2005, including accreted interest of \$2,385,000 are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$535,000	\$227,646	\$762,646
2007	550,000	205,400	755,400
2008	575,000	181,913	756,913
2009	154,623	610,215	764,838
2010	135,428	629,410	764,838
2011-2015	2,107,884	1,676,013	3,783,897
2016-2017	1,350,000	69,826	1,419,826
Total	<u>\$5,407,935</u>	<u>\$3,600,423</u>	<u>\$9,008,358</u>

Principal and interest requirements to retire the 2000 Classroom Facilities Variable Interest Bonds outstanding at June 30, 2005, including accreted interest of \$680,000 are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	\$130,000	\$130,846	\$260,846
2007	135,000	124,717	259,717
2008	140,000	118,288	258,288
2009	145,000	111,518	256,518
2010	155,000	104,279	259,279
2011-2015	445,000	862,320	1,307,320
2016-2020	950,000	336,000	1,286,000
2021-2023	705,000	60,900	765,900
Total	<u>\$2,805,000</u>	<u>\$1,848,868</u>	<u>\$4,653,868</u>

Principal and interest requirements to retire the Energy Conservation Loan outstanding at June 30, 2005 are as follows:

Fiscal Year Ending June 30, 2005	Principal	Interest	Total
2006	<u>\$20,938</u>	<u>\$380</u>	<u>\$21,318</u>

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

The School District's overall legal debt margin was \$16,362,230, with an unvoted debt margin of \$181,803, at June 30, 2005.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Jefferson County Joint Vocational School – The Jefferson County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2005, the School District made no contributions to the Vocational School District. To obtain financial information write to the Jefferson County Joint Vocational School, Treasurer, at 1509 County Highway 22A, Bloomingdale, Ohio 43910.

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2005, the total amount paid to OME-RESA from the School District was \$48,291. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

East Central Ohio Special Education Regional Resource Center (ECOSERRC) – The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC.

NOTE 17 – PUBLIC ENTITY POOL

Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member

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

Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0	\$85,496
Current Year Set-aside Requirement	283,984	283,984	0
Current Year Offsets	0	(538,197)	0
Qualifying Transfers	0	(1,000,000)	0
Qualifying Disbursements	<u>(302,928)</u>	<u>(146,838)</u>	<u>0</u>
Totals	<u>(\$18,944)</u>	<u>(\$1,401,051)</u>	<u>\$85,496</u>
Allowable Carry Forward for Fiscal Year 2005	(18,944)	0	0
Allowable Carry Forward at June 30, 2004	(437,970)	(3,548,337)	0
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$456,914)</u>	<u>(\$3,548,337)</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$0</u>	<u>\$0</u>	<u>\$85,496</u>

The School District has qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement of future years. The School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside. The District also had prior year capital expenditures in connection with a school facilities project that may be carried forward to offset future set-aside requirements.

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

NOTE 19 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005

B. Litigation

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

NOTE 20 – SUBSEQUENT EVENTS

On July 27, 2005, the School District signed a Project Agreement with the Ohio School Facilities Commission, the “Commission”, for the Classroom Facilities Assistance Program. The District received final approval and signature from the Commission dated September 13, 2005. The agreement provides for a project budget of \$27,798,828, being comprised of the state share \$21,405,098 and the local share \$6,393,731.

In order to fund the local share of the Classroom Facilities Assistance Program, the School District issued \$3,930,240 of Qualified Zone Academy Bonds (QZABs) on August 15, 2005. The remaining local share was authorized by the Board of Education and approved by the Commission as a transfer from the permanent improvement fund to the classroom facilities fund local cost center. The transfer was in the amount of \$2,601,049, and occurred on August 24, 2005.

As part of the issuance of the QZABs, the District transferred \$1,000,000 to an escrow account held at US Bank that will be restricted for future debt service. The \$1,000,000 transfer occurred on August 15, 2005.

**STEUBENVILLE CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**FEDERAL AWARDS EXPENDITURE SCHEDULE
JUNE 30, 2005**

Federal Grantor/Pass Through Grantor Program Title	Pass Through Entity No.	Federal CFDA No.	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	04-PU-02	10.550		\$20,496		\$20,496
National School Breakfast	02-PU-02	10.553	\$150,711		\$150,711	
National School Lunch Program	05-PU-02	10.555	394,338		394,338	
Childcare Food Program	05-PU-02	10.558			1,095	
Total U.S. Department of Agriculture - Nutrition Cluster			545,049	20,496	546,144	20,496
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Impact Aid		84.041	10,599			
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-04 C1-S1-05	84.010	1,062,353		122,591 1,036,329	
Total Grants to Local Education Agencies			1,062,353		1,158,920	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	MS-S1-04 MS-S1-05	84.027	654,871		37,697 650,973	
Total Special Education Grants to States (IDEA Part B)			654,871		688,670	
Special Education - Preschool Grant	PG-04 PG-05	84.173	38,234		1,126 38,080	
Total Special Education - Preschool Grant			38,234		39,206	
Total Special Education Cluster			693,104		727,876	
Even Start Program	ES-S1-04 ES-S1-05	84.213	83,593		13,163 81,605	
Total Even Start Program			83,593		94,768	
Innovative Education Program Strategies	C2-S1-04 C2-S1-05	84.298	15,534		1,852 15,487	
Total Innovative Education Program			15,534		17,339	
Title II-A Improving Tchr Quality Program	FY 04 FY 05	84.367	236,930		39,538 236,931	
Total Title II-A			236,930		276,468	
Safe and Drug Free School Program	DR-S1-04 DR-S1-05	84.186	28,230		2,028 27,953	
Total Safe and Drug Free Schools			28,230		29,981	
21st Century Grant	FY 02	84.287B	188,512		188,512	
Technology Title II-D	FY 04 FY 05	84.318	28,243		6,845 28,236	
Total Technology Title II-D			28,243		35,081	
Emergency Repair Grant	FY 03 FY 04	83.352A	3,000 84,248		39,609 131,949	
Total Emergency Repair Grant			87,248		171,558	
Parent Mentor	FY 04 FY 05	84.027	24,375		3,929 21,761	
Total Parent Mentor			24,375		25,690	
Total U.S. Department of Education			2,458,721		2,726,193	
U.S. Department of Health and Human Services						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Community Alternative Funding	FY 04 FY 05	93.778	25,208 36,698		25,208 36,698	
Total Community Alternative Funding			61,906		61,906	
Total U.S. Department of Health & Human Services			61,906		61,906	
Total Federal Awards			\$3,065,676	\$20,496	\$3,334,243	\$20,496

The notes to the Federal Awards Expenditure Schedule are an integral part of this schedule.

**STEUBENVILLE CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



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*

Steubenville City School District
Jefferson County
936 North Fifth Street
Steubenville, Ohio 43917

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Steubenville City School District, Jefferson County, Ohio (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated April 28, 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 28, 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 whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

April 28, 2006



Auditor of State Betty Montgomery

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

Steubenville City School District
Jefferson County
936 North Fifth Street
Steubenville, Ohio 43952

To The Board of Education:

Compliance

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

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

In our opinion, Steubenville City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005. In a separate to the District's management dated April 28, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

April 28, 2006

**STEUBENVILLE CITY SCHOOL DISTRICT
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under ' .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Improving Teacher Quality : CFDA #84.367 Nutrition Cluster: CFDA # 10.550, 10.553 and 10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None	
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3. FINDINGS FOR FEDERAL AWARDS

None	
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**Auditor of State
Betty Montgomery**

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**STEUBENVILLE CITY SCHOOL DISTRICT
JEFFERSON 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
JULY 6, 2006**