



Dave Yost • Auditor of State

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
Martins Ferry, Ohio 43935

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2012, and the respective changes in financial position, 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 February 28, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information 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. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 28, 2013

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of the Martins Ferry City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- In total, net assets increased \$536,830.
- General revenues accounted for \$11,913,891 in revenue or approximately 73 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions, accounted for \$4,485,262 or approximately 27 percent of total revenues of \$16,399,153.
- Total assets of governmental activities increased \$163,745. Current assets increased by \$1,597,905 due primarily to increased cash and cash equivalents resulting from revenue received from the "Paid Up" oil and gas lease with XTO Energy, Inc., along with increases in intergovernmental and property tax receivables. Capital assets decreased \$1,434,160 due primarily to depreciation expense which was offset slightly by capital asset additions.
- The School District had \$15,862,323 in expenses related to governmental activities; only \$4,485,262 of these expenses were offset by program specific charges for services, and operating grants and contributions. General revenues of \$11,913,891 were adequate to provide for these programs.
- Total governmental funds had \$16,254,921 in revenues and \$15,243,568 in expenditures. Overall, including other financing sources and uses, Total Governmental Funds' balance increased \$1,423,729.

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 School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service Fund.

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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 2012 compared to 2011.

Table 1
Net Assets

	Governmental Activities		
	2012	2011	Net Change
Assets			
Current and Other Assets	\$5,699,580	\$4,101,675	\$1,597,905
Capital Assets	40,323,385	41,757,545	(1,434,160)
Total Assets	46,022,965	45,859,220	163,745
Liabilities			
Long-Term Liabilities	13,978,033	14,499,333	(521,300)
Other Liabilities	4,310,418	4,162,203	148,215
Total Liabilities	18,288,451	18,661,536	(373,085)
Net Assets			
Invested in Capital Assets, Net of Debt	27,114,886	28,482,616	(1,367,730)
Restricted	1,539,856	1,177,487	362,369
Unrestricted (Deficit)	(920,228)	(2,462,419)	1,542,191
Total Net Assets	\$27,734,514	\$27,197,684	\$536,830

Total assets of governmental activities increased \$163,745. Current assets increased by \$1,597,905 due primarily to increased cash and cash equivalents resulting from revenue received from the signing bonus for the oil and gas lease with XTO Energy, Inc., along with increases in intergovernmental and property tax receivables. Capital assets decreased \$1,434,160 due primarily to depreciation expense which was offset slightly by capital asset additions.

Total liabilities decreased \$373,085. During fiscal year 2012, the School District undertook a partial refunding of the 2005 School Construction and Improvement general obligation bonds. The refunding and scheduled debt payments on the bonds and the capital leases resulted in long-term liabilities decreasing \$521,300. See Note 16 for further details. Other liabilities increased \$148,215.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for fiscal year 2012 compared to fiscal year 2011.

Table 2
Changes in Net Assets

	Governmental Activities		
	2012	2011	Net Change
Revenues			
<i>Program Revenue</i>			
Charges for Services	\$1,854,586	\$1,348,238	\$506,348
Operating Grants and Contributions	2,630,676	2,751,843	(121,167)
Total Program Revenue	4,485,262	4,100,081	385,181
<i>General Revenue</i>			
Property Taxes	2,697,343	2,825,509	(128,166)
Grants and Entitlements	9,131,918	8,556,547	575,371
Gifts and Donations	12,425	5,729	6,696
Investment Earnings	492	756	(264)
Miscellaneous	71,713	12,847	58,866
Total General Revenue	11,913,891	11,401,388	512,503
Total Revenues	16,399,153	15,501,469	897,684
Program Expenses			
Instruction:			
Regular	6,831,902	6,627,556	204,346
Special	1,697,138	1,839,243	(142,105)
Vocational	327,510	326,846	664
Student Intervention Services	70,120	71,405	(1,285)
Support Services:			
Pupil	593,422	741,708	(148,286)
Instructional Staff	476,559	692,133	(215,574)
Board of Education	75,403	80,720	(5,317)
Administration	1,163,688	1,195,458	(31,770)
Fiscal	287,766	363,411	(75,645)
Operation and Maintenance of Plant	1,387,740	1,434,158	(46,418)
Pupil Transportation	734,718	654,154	80,564
Central	156,597	58,844	97,753
Operation of Non-Instructional Services	122,448	144,914	(22,466)
Food Service Operations	742,061	796,674	(54,613)
Extracurricular Activities	413,524	390,777	22,747
Interest and Fiscal Charges	781,727	582,836	198,891
Total Expenses	15,862,323	16,000,837	(138,514)
<i>Change in Net Assets</i>	<i>536,830</i>	<i>(499,368)</i>	<i>1,036,198</i>
Net Assets Beginning of Year	27,197,684	27,697,052	(499,368)
Net Assets End of Year	\$27,734,514	\$27,197,684	\$536,830

Governmental Activities

In 2012, 16 percent of the School District's revenues were from property taxes and 56 percent were from unrestricted grants and entitlements. A significant increase was realized in charges for services program revenue from fiscal year 2011 resulting primarily from the oil and gas lease signing bonus revenue.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Instruction comprises approximately 56 percent of governmental program expenses, and reflected a \$61,620 increase from fiscal year 2011. Overall, program expenses of the School District decreased by \$138,514.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services for fiscal year 2012 compared to fiscal year 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction:				
Regular	\$6,831,902	\$6,627,556	\$5,031,767	\$5,369,997
Special	1,697,138	1,839,243	899,548	971,542
Vocational	327,510	326,846	210,350	208,992
Student Intervention Services	70,120	71,405	70,120	71,405
Support Services:				
Pupil	593,422	741,708	588,489	512,450
Instructional Staff	476,559	692,133	346,463	494,070
Board of Education	75,403	80,720	75,403	80,720
Administration	1,163,688	1,195,458	1,034,636	1,139,906
Fiscal	287,766	363,411	186,756	163,055
Operation and Maintenance of Plant	1,387,740	1,434,158	1,094,660	1,177,794
Pupil Transportation	734,718	654,154	734,718	654,154
Central	156,597	58,844	49,895	49,989
Operation of Non-Instructional Services	122,448	144,914	8,194	44,024
Food Service Operations	742,061	796,674	(41,822)	87,784
Extracurricular Activities	413,524	390,777	306,157	292,038
Interest and Fiscal Charges	781,727	582,836	781,727	582,836
Total Expenses	\$15,862,323	\$16,000,837	\$11,377,061	\$11,900,756

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 72 percent of total expenses are supported through taxes and other general revenues.

The School District Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. The School District's major funds are the General Fund and the Debt Service Fund. The General Fund had \$12,732,504 in revenues and \$11,590,226 in expenditures, and the fund balance, including other financing sources and uses increased \$1,332,420. The Debt Service Fund had \$610,166 in revenues and \$606,146 in expenditures, and the fund balance, including other financing sources and uses increased \$169,860.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal 2012 the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final amounts. There were no significant variances between original and final budget amounts. The actual results of operations were different than the budgeted amounts as more intergovernmental revenue and tuition and fees was realized, while spending in almost all categories was higher than budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012 the School District had \$40,323,385 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 10 for more detailed information of the School District's capital assets.

Debt

At June 30, 2012, the School District had \$9,849,125 in outstanding general obligation bonds including premiums, discounts and the refunding difference. The general obligation bonds were issued for school construction and improvements, including the refunding bonds that were issued during fiscal year 2012. In addition, the School District had \$3,409,399 in outstanding capital leases related to the stadium construction project, school facilities construction project locally funded initiatives, copier lease, purchase of the bus garage, and land associated with the building project.

Table 4
Outstanding Debt at Year End
Governmental Activities

	2012	2011
2005 School Construction and Improvement General Obligation Bonds	\$985,025	\$9,875,973
2012 Refunding Bonds	8,864,100	0
Capital Leases	3,409,399	3,811,218
Total	\$13,258,524	\$13,687,191

See Note 16 for more detailed information related to the School District's debt.

Economic Factors

The School District began fiscal year 2012 with a General Fund deficit. The School District received EDJOBS grant funding during fiscal years 2011 and 2012 which helped save the jobs of newer teaching staff. This funding, along with cost reductions, including a two-year 5 percent salary reduction, a freeze on salary steps and columns, and health plan changes has had a positive impact in the General Fund. Also in fiscal year 2012, the School District received oil and gas lease signing bonus revenue that was used for additional principal payments on capital leases.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The School District Board of Education approved a forecast reflecting decreases in revenues for fiscal year 2013. The School District received, in fiscal year 2013, additional oil and gas lease signing bonus revenue that will be used for capital related expenditures. The School District will be subject to the elimination of the Tangible Personal Property Reimbursements which is currently being phased out. The School District does not expect increases in revenue from the State to compensate for the loss of EDJOBS grant dollars.

The School District's approved forecast reflects increases in expenditures for fiscal year 2013. Salary and wage expenses are expected to increase as a result of negotiated wage increases. Retirement and benefit expenses are expected to increase as well, in direct correlation to the wage increases.

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 Karen Blake, Treasurer/CFO at Martins Ferry City School District, 5001 Ayers Limestone Rd, Martins Ferry, Ohio 43935.

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Martins Ferry City School District
Statement of Net Assets
 June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,809,917
Cash and Cash Equivalents with Escrow Agents	28,245
Intergovernmental Receivable	440,360
Materials and Supplies Inventory	39,395
Property Taxes Receivable	3,381,663
Non-Depreciable Capital Assets	2,436,556
Depreciable Capital Assets, Net	<u>37,886,829</u>
 Total Assets	 <u>46,022,965</u>
Liabilities	
Accounts Payable	10,178
Retainage Payable	28,245
Accrued Wages and Benefits Payable	1,039,964
Intergovernmental Payable	393,600
Accrued Interest Payable	23,272
Vacation Benefits Payable	69,985
Matured Severance Payable	58,800
Deferred Revenue	2,660,254
Retirement Incentive Payable	26,120
Long-Term Liabilities:	
Due Within One Year	689,571
Due In More Than One Year	<u>13,288,462</u>
 Total Liabilities	 <u>18,288,451</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	27,114,886
Restricted for:	
Debt Service	969,697
Capital Projects	247,254
Food Service	159,630
Classroom Facilities Maintenance	125,035
State Programs	21,293
Other Purposes	16,947
Unrestricted (Deficit)	<u>(920,228)</u>
 Total Net Assets	 <u><u>\$27,734,514</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities			Governmental Activities
Instruction:			
Regular	\$6,831,902	\$1,203,962	\$596,173
Special	1,697,138	0	797,590
Vocational	327,510	0	117,160
Student Intervention Services	70,120	0	0
Support Services:			
Pupil	593,422	0	4,933
Instructional Staff	476,559	0	130,096
Board of Education	75,403	0	0
Administration	1,163,688	0	129,052
Fiscal	287,766	0	101,010
Operation and Maintenance of Plant	1,387,740	293,080	0
Pupil Transportation	734,718	0	0
Central	156,597	0	106,702
Operation of Non-Instructional Service	122,448	0	114,254
Food Service Operations	742,061	250,177	533,706
Extracurricular Activities	413,524	107,367	0
Interest and Fiscal Charges	781,727	0	0
<i>Total Governmental Activities</i>	<u>\$15,862,323</u>	<u>\$1,854,586</u>	<u>\$2,630,676</u>
			<u>(11,377,061)</u>
General Revenues			
Property Taxes Levied for General Purposes			2,053,005
Property Taxes Levied for Capital Outlay			78,261
Property Taxes Levied for Debt Service			517,815
Property Taxes Levied for Building Maintenance			48,262
Grants and Entitlements not Restricted to Specific Programs			9,131,918
Gifts and Donations			12,425
Investment Earnings			492
Miscellaneous			71,713
<i>Total General Revenues</i>			<u>11,913,891</u>
Change in Net Assets			536,830
<i>Net Assets Beginning of Year</i>			<u>27,197,684</u>
<i>Net Assets End of Year</i>			<u>\$27,734,514</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$280,836	\$898,500	\$619,581	\$1,798,917
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	11,000	0	0	11,000
Cash and Cash Equivalents with Escrow Agents	0	0	28,245	28,245
Receivables:				
Property Taxes	2,569,345	654,240	158,078	3,381,663
Intergovernmental	115,566	0	324,794	440,360
Interfund	266,436	0	0	266,436
Materials and Supplies Inventory	22,044	0	17,351	39,395
<i>Total Assets</i>	<u>\$3,265,227</u>	<u>\$1,552,740</u>	<u>\$1,148,049</u>	<u>\$5,966,016</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$6,325	\$0	\$3,853	\$10,178
Accrued Wages and Benefits	943,047	0	96,917	1,039,964
Interfund Payable	0	0	266,436	266,436
Intergovernmental Payable	335,401	0	58,199	393,600
Matured Severance Payable	58,800	0	0	58,800
Retirement Incentive Payable	26,120	0	0	26,120
Retainage Payable	0	0	28,245	28,245
Deferred Revenue	2,580,628	626,892	155,562	3,363,082
<i>Total Liabilities</i>	<u>3,950,321</u>	<u>626,892</u>	<u>609,212</u>	<u>5,186,425</u>
Fund Balances (Deficit)				
Nonspendable:				
Inventories	22,044	0	17,351	39,395
Restricted for:				
Debt Service	0	925,848	0	925,848
Capital Projects	0	0	226,584	226,584
Food Service Operations	0	0	142,279	142,279
Classroom Facilities Maintenance	0	0	118,145	118,145
Local Programs	0	0	16,947	16,947
State Programs	0	0	21,293	21,293
Underground Storage Tank Premium	11,000	0	0	11,000
Unassigned	(718,138)	0	(3,762)	(721,900)
<i>Total Fund Balances (Deficit)</i>	<u>(685,094)</u>	<u>925,848</u>	<u>538,837</u>	<u>779,591</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,265,227</u>	<u>\$1,552,740</u>	<u>\$1,148,049</u>	<u>\$5,966,016</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2012*

Total Governmental Fund Balances \$779,591

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 40,323,385

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

Property Taxes	587,514	
Grants	3,762	
Tuition and Fees	111,552	
Total	702,828	702,828

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

General Obligation Bonds - Serial/Term	9,125,000	
General Obligation Bonds - Capital Appreciation Bonds	294,992	
Premium on Refunding Bonds	1,589,927	
Premium on Serial/Term Bonds	50,025	
Discount on Refunding Bonds	(79,106)	
Refunding Gain/Loss on Refunding Bonds	(1,131,713)	
Capital Leases	3,409,399	
Compensated Absences	719,509	
Vacation Benefits Payable	69,985	
Accrued Interest Payable	23,272	
Total	(14,071,290)	(14,071,290)

Net Assets of Governmental Activities \$27,734,514

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,031,423	\$511,846	\$125,156	\$2,668,425
Intergovernmental	9,249,078	98,308	2,411,446	11,758,832
Interest	478	12	2	492
Tuition and Fees	1,087,690	0	0	1,087,690
Extracurricular Activities	0	0	107,367	107,367
Rent	293,080	0	0	293,080
Contributions and Donations	0	0	12,425	12,425
Charges for Services	4,720	0	250,177	254,897
Miscellaneous	66,035	0	5,678	71,713
<i>Total Revenues</i>	<u>12,732,504</u>	<u>610,166</u>	<u>2,912,251</u>	<u>16,254,921</u>
Expenditures				
Current:				
Instruction:				
Regular	5,525,969	0	612,946	6,138,915
Special	735,152	0	824,033	1,559,185
Vocational	313,333	0	0	313,333
Student Intervention Services	70,882	0	0	70,882
Support Services:				
Pupil	560,487	0	19,470	579,957
Instructional Staff	277,981	0	145,410	423,391
Board of Education	75,403	0	0	75,403
Administration	1,000,633	0	74,842	1,075,475
Fiscal	265,680	7,228	1,773	274,681
Operation and Maintenance of Plant	985,776	0	182,220	1,167,996
Pupil Transportation	634,751	0	0	634,751
Central	44,103	0	112,504	156,607
Operation of Non-Instructional Services	0	0	115,831	115,831
Food Service Operations	0	0	649,419	649,419
Extracurricular Activities	208,746	0	110,875	319,621
Capital Outlay	91,567	0	94,873	186,440
Debt Service:				
Principal Retirement	583,355	180,000	65,000	828,355
Interest and Fiscal Charges	216,408	253,078	38,000	507,486
Issuance Costs	0	165,840	0	165,840
<i>Total Expenditures</i>	<u>11,590,226</u>	<u>606,146</u>	<u>3,047,196</u>	<u>15,243,568</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,142,278</u>	<u>4,020</u>	<u>(134,945)</u>	<u>1,011,353</u>
Other Financing Sources (Uses)				
Refunding Bonds Issued	0	8,484,992	0	8,484,992
Premium on Refunding Bonds Issued	0	1,589,927	0	1,589,927
Discount on Refunding Bonds Issued	0	(79,106)	0	(79,106)
Payment to Refunded Bond Escrow Agent	0	(9,829,973)	0	(9,829,973)
Inception of Capital Leases	246,536	0	0	246,536
Transfers In	0	0	56,394	56,394
Transfers Out	(56,394)	0	0	(56,394)
<i>Total Other Financing Sources (Uses)</i>	<u>190,142</u>	<u>165,840</u>	<u>56,394</u>	<u>412,376</u>
<i>Net Change in Fund Balances</i>	<u>1,332,420</u>	<u>169,860</u>	<u>(78,551)</u>	<u>1,423,729</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(2,017,514)</u>	<u>755,988</u>	<u>617,388</u>	<u>(644,138)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$685,094)</u>	<u>\$925,848</u>	<u>\$538,837</u>	<u>\$779,591</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds \$1,423,729

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

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

Capital Assets Additions	124,746	
Depreciation Expense	(1,558,906)	
Total	(1,434,160)	(1,434,160)

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

Property Taxes	28,918	
Grants	3,762	
Tuition and Fees	111,552	
Total	144,232	144,232

Issuance of Debt is reported as other financing sources in the governmental funds, but the issuance increases/decreases long-term liabilities on the statement of net assets.

General Obligation Refunding Bonds	(8,190,000)	
Capital Appreciation Refunding Bonds	(294,992)	
Premium on Refunding Bonds	(1,589,927)	
Discount on Refunding Bonds	79,106	
Total	(9,995,813)	(9,995,813)

Payment to the refunded bond escrow agent is an other financing use in governmental funds, but the payment reduces long-term liabilities on the statement of net assets. 9,829,973

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 - Serial	180,000	
Capital Leases	648,355	
Total	828,355	828,355

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums and issuance costs are reported on the statement of activities.

Accrued Interest	15,200	
Issuance Costs	(136,289)	
Premium	12,688	
Total	(108,401)	(108,401)

Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities. (246,536)

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

Vacation Benefits Payable	2,818	
Compensated Absences	92,633	
Total	95,451	95,451

Change in Net Assets of Governmental Activities \$536,830

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,056,925	\$2,056,925	\$2,101,271	\$44,346
Intergovernmental	8,114,885	8,114,885	9,245,064	1,130,179
Interest	421	421	478	57
Tuition and Fees	892,089	892,089	1,087,690	195,601
Rent	0	0	293,080	293,080
Charges for Services	14,963	14,963	4,720	(10,243)
Miscellaneous	12,841	12,841	66,035	53,194
<i>Total Revenues</i>	<u>11,092,124</u>	<u>11,092,124</u>	<u>12,798,338</u>	<u>1,706,214</u>
Expenditures				
Current:				
Instruction:				
Regular	5,392,883	5,234,017	5,502,989	(268,972)
Special	886,537	863,841	744,705	119,136
Vocational	295,989	286,262	353,109	(66,847)
Student Intervention Services	61,032	57,789	69,340	(11,551)
Support Services:				
Pupil	503,348	487,137	531,336	(44,199)
Instructional Staff	296,036	287,818	375,802	(87,984)
Board of Education	31,149	27,906	117,476	(89,570)
Administration	984,442	955,367	1,018,153	(62,786)
Fiscal	303,727	294,000	272,015	21,985
Operation and Maintenance of Plant	1,008,993	979,813	1,006,025	(26,212)
Pupil Transportation	563,604	540,908	659,405	(118,497)
Central	38,857	35,614	44,635	(9,021)
Extracurricular Activities	188,509	184,584	200,345	(15,761)
Debt Service:				
Principal Retirement	525,866	525,866	437,946	87,920
Interest and Fiscal Charges	93,991	93,991	204,441	(110,450)
<i>Total Expenditures</i>	<u>11,174,963</u>	<u>10,854,913</u>	<u>11,537,722</u>	<u>(682,809)</u>
Excess of Revenues Over (Under) Expenditures	(82,839)	237,211	1,260,616	1,023,405
Other Financing Sources (Uses)				
Transfers In	1,858	1,858	0	(1,858)
Advances In	1,518	1,518	1,518	0
Tax Anticipation Note Issued	500,000	500,000	0	(500,000)
Transfers Out	0	(55,124)	(55,124)	0
Advances Out	(1,518)	(266,437)	(266,436)	1
Total Other Financing Sources (Uses)	<u>501,858</u>	<u>181,815</u>	<u>(320,042)</u>	<u>(501,857)</u>
<i>Net Change in Fund Balance</i>	419,019	419,026	940,574	521,548
<i>Fund Balance (Deficit) Beginning of Year</i>	(741,560)	(741,560)	(741,560)	0
Prior Year Encumbrances Appropriated	46,526	46,526	46,526	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$276,015)</u>	<u>(\$276,008)</u>	<u>\$245,540</u>	<u>\$521,548</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$8,550</u>
<i>Total Assets</i>	<u><u>\$8,550</u></u>
Liabilities	
Due to Students	<u>\$8,550</u>
<i>Total Liabilities</i>	<u><u>\$8,550</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1853 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 12 square miles. It is located in Belmont County and includes all the city of Martins Ferry and portions of Pease and Colerain Townships. It is staffed by 59 non-certified employees, 105 certified full-time teaching personnel and 8 administrative employees, who provide services to 1,531 students and other community members. The School District currently operates 2 instructional/support buildings, 1 administrative building, and 1 bus garage facility.

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 School District, this includes general operations, food service, and student related activities of the School District.

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

The following activities are included within the reporting entity:

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

The School District participates in the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council), the Educational Regional Service System Region 12 (ERSS), the Coalition of Rural and Appalachian Schools (CORAS) which are jointly governed organizations, the Martins Ferry Public Library a related organization, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP) and the Ohio School Plan (OSP), which are defined as an insurance purchasing pool. These organizations are presented in Notes 17, 18, and 19.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 accounts for and reports 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 and transferred according to the general laws of Ohio.

Debt Service Fund The Debt Service Fund accounts for and reports property tax revenues restricted for the payment of, general long-term debt principal and interest.

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

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

Following Ohio statues, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$478 which includes \$68 assigned from other School District funds.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents. During fiscal year 2012, the School District had no 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 imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash restricted for insurance premiums related to the underground storage tank and restricted assets in the Other Governmental Funds are for amounts withheld on construction contracts.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. 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 \$5,000. The School District currently only capitalizes land, land improvements, buildings and improvements, construction in progress, furniture and equipment and vehicles. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Construction in Progress	N/A
Land Improvements	5 - 50 Years
Buildings and Improvements	20 - 50 Years
Furniture and Equipment	5-20 Years
Vehicles	5 - 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. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire sick leave benefit liability is reported on the government-wide financial statements.

On the government fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance payable" in the fund from which the employee will be paid.

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, and compensated absences, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Bond Premiums and Discounts

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 premiums and bond discounts are deferred and

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 premiums/discounts.

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

On the governmental fund financial statements, governmental fund types recognize and bond premiums and 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 and bond discounts are reported as other financing uses.

N. Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (School District resolutions).

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing revenue sources in the fund have been specifically committed for use in satisfying those contractual requirements.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State Statute.

Unassigned: Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 enacted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include local resources restricted to expenditures for specific purposes. Of the total restricted net assets, none 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 asset.

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's

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authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles - For fiscal year 2012, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53”. GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any material change to the School District’s financial statements.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or unassigned fund balance (GAAP basis).

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4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Inception of Capital Lease is a non-cash transaction which is reported on the GAAP operating statement, and not on the budgetary basis statements.

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

	<u>General</u>
Net Change in Fund Balance	
GAAP Basis	\$1,332,420
Revenue Accruals	65,834
Advances In	1,518
Expenditure Accruals	98,800
Inception of Capital Lease	(246,536)
Advances Out	(266,436)
Transfers Out	1,270
Encumbrances	<u>(46,296)</u>
Budget Basis	<u><u>\$940,574</u></u>

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At June 30, 2012, the following fund had deficit fund balance:

	<u>Deficit Fund Balance</u>
General Fund	\$685,094

The deficit in the General Fund was created due to the application of generally accepted accounting principles.

B. Legal Compliance

Appropriations exceeded estimated resources in the General, Permanent Improvement, Non-Public Schools, and EMIS Funds' contrary to Section 5705.39, Revised Code, in the amount of \$324,720, \$194,705, \$30,154, and \$4,418, respectively. The School District will monitor estimated revenue levels to ensure that appropriations are not in excess of the amount available.

Expenditures exceeded appropriations contrary to Section 5705.41(B), Revised Code, in the following funds by the following amounts:

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Fund	Variance
General	(\$687,709)
Title IV-B	(9,884)
Title I	(169,991)
Title II-A	(47,362)
Tech Grant II-D	(52,268)

The School District will monitor actual expenditures on a more regular basis to help ensure appropriations are not exceeded.

NOTE 6 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;

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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) above;
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, the bank balance was \$2,031,397. Of the bank balance \$250,000 was covered by Federal Depository Insurance and the remaining balance of \$1,781,397 was covered by pledged collateral with securities held by the pledging financial institution's trust department or agent. Although the securities were held by the pledging financial institution's trust department and all statutory requirements for the deposit of money had been followed, non-compliance with Federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected 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.

The School District receives property taxes from Belmont County. The County Auditor periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 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 and public utility property taxes which were measurable as of June 30, 2012 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, 2012, was \$100,269 in the General Fund, \$27,348 in the Debt Service Fund, \$1,570 in the Classroom Maintenance Special Revenue Fund, and \$4,708 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2011, was \$170,117 in the General Fund, \$45,262 in the Debt Service Fund, \$2,649 in the Classroom Maintenance Special Revenue Fund, and \$7,945 in the Permanent Improvement Capital Projects Fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$105,529,210	94.5%	\$105,912,920	94.3%
Public Utility Personal	6,085,070	5.5%	6,356,740	5.7%
	<u>\$111,614,280</u>	<u>100.0%</u>	<u>\$112,269,660</u>	<u>100.0%</u>
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

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NOTE 8 - RECEIVABLES

Receivables at June 30, 2012, consisted of property taxes, interfund, intergovernmental grants and excess costs. 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 \$587,514 may not be collected within one year. All other receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
Medicaid Reimbursement	\$4,014
IDEA B Grant	66,646
Title I Grant	171,620
Title II-A Grant	83,554
Title II-D Technology Grant	2,974
Excess Costs from Other School Districts	111,552
Total Intergovernmental Receivables	<u><u>\$440,360</u></u>

NOTE 9 - INTERNAL BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2012, consist of the following interfund receivables and payables:

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	<u>General Fund</u>
Other Nonmajor Governmental Funds	<u><u>\$266,436</u></u>

The advance from the General Fund to the Miscellaneous State Grants and the Miscellaneous Federal Grants Special Revenue Funds was to cover costs until Federal funds are obtained to finance the activity of the funds.

B. Transfers

	<u>Transfer from</u>
<u>Transfer to</u>	<u>General Fund</u>
Other Nonmajor Governmental	<u><u>\$56,394</u></u>

A permanent transfer from the General Fund to the Miscellaneous Federal Grants Special Revenue fund was made as all Federal revenue for the program has been received and expended.

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NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Nondepreciable Capital Assets:				
Land	\$2,436,556	\$0	\$0	\$2,436,556
Total Nondepreciable Capital Assets	2,436,556	0	0	2,436,556
Depreciable Capital Assets:				
Land Improvements	3,966,096	24,980	0	3,991,076
Buildings and Improvements	38,664,990	0	0	38,664,990
Furniture and Equipment	2,355,409	99,766	(379,846)	2,075,329
Vehicles	1,044,048	0	0	1,044,048
Total Depreciable Capital Assets	46,030,543	124,746	(379,846)	45,775,443
Accumulated Depreciation:				
Land Improvements	(723,653)	(202,967)	0	(926,620)
Buildings and Improvements	(3,680,245)	(1,015,790)	0	(4,696,035)
Furniture and Equipment	(1,472,961)	(288,011)	379,846	(1,381,126)
Vehicles	(832,695)	(52,138)	0	(884,833)
Total Accumulated Depreciation	(6,709,554)	(1,558,906)	379,846	(7,888,614)
Total Depreciable Capital Assets, Net	39,320,989	(1,434,160)	0	37,886,829
Governmental Capital Assets, Net	\$41,757,545	(\$1,434,160)	\$0	\$40,323,385

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$747,045
Special	131,070
Vocational	16,442
Support Services:	
Pupil	19,660
Instructional Staff	65,535
Administration	86,719
Fiscal	13,107
Operation and Maintenance of Plant	162,866
Pupil Transportation	99,418
Food Service Operations	124,061
Operation of Non-Instructional Services	6,617
Extracurricular Activities	86,366
Total Depreciation Expense	\$1,558,906

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NOTE 11- RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

A. Property, Fleet and Commercial Crime Insurance

During fiscal year 2012 the School District contracted with Ohio School Plan for property, fleet, and commercial crime insurance and the Federal Emergency Management Agency (FEMA) for flood coverage. Coverage provided follows:

<i>Property:</i>	
Building and Contents - replacement cost (\$1,000 Deductible)	\$45,783,564
<i>Commercial Auto Coverage:</i>	
Auto Liability-Combined Single Limit	3,000,000
Uninsured Motorists	1,000,000
Medical Payments	5,000
Comprehensive	1,000 deductible
Collision	1,000 deductible
<i>Commercial Crime:</i>	
Employee Theft - Per Employee (\$1,000 Deductible)	25,000
Forgery or Alteration - Per Occurance (\$1,000 Deductible)	25,000
Inside / Outside the Premises - Theft (\$1,000 Deductible)	10,000
<i>Flood Insurance:</i>	
Building and Contents - replacement cost (\$5,000 Deductible)	9,050

B. Liability Insurance

The District's liability insurance policy is with Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium amount to the OSP (see Note 19). The types and amounts of coverage provided by the Ohio School Plan are as follows:

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Educational General Liability:

Bodily Injury and Property Damage - Each Occurrence and Sexual Abuse Injury Limit - Each Sexual Abuse Offense	\$3,000,000
Personal and Advertising Injury - Each Offense Limit	3,000,000
Fire Damage - Any One Event Limit	500,000
Medical Expense - Any One Person Limit	10,000
Each Accident Limit	10,000
General Aggregate Limit	5,000,000
Products-Completed Operations Aggregate Limit	3,000,000

Employers Liability - Stop Gap - Occurrence:

Bodily Injury by Accident - Each Accident Limit	3,000,000
Bodily Injury by Disease - Endorsement Limit	3,000,000
Bodily Injury by Disease - Each Employee Limit	3,000,000

Employee Benefits Liability - Claims Made:

Each Offense Limit	3,000,000
Aggregate Limit	5,000,000

Educational Legal Liability - Claims Made:

Errors and Omissions Injury Limit (\$2,500 Deductible)	3,000,000
Errors and Omissions Injury Aggregate Limit	5,000,000
Employment Practices Injury Limit (\$2,500 Deductible)	3,000,000
Employment Practices Injury Aggregate Limit	5,000,000

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

C. Worker's Compensation

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). 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 district 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 its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of CompManagement provides administration, cost control, and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided in the Ohio Revised Code Chapter 3309. SERS

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issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocated the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$171,653, \$45,888, and \$262,862 respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 67 percent has been contributed for fiscal year 2010, with the balance being reported as an intergovernmental payable.

B. State Teachers Retirement System

Plan Description - 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 43215-3771, by calling (888) 227-7877, 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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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.

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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Funding Policy – Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. 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. For the fiscal year ended June 30, 2012, 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 2011, the portion used to fund pension obligations was also 13 percent.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$714,606 and \$7,218 for the fiscal year ended June 30, 2012, \$731,547 and \$7,389 for the fiscal year ended June 30, 2011, and \$846,267 and \$8,548 for the fiscal year ended June 30, 2010. For fiscal year 2012, 78.5 percent has been contributed for the DB plan and 78.5 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2012 were \$223 made by the School District and \$159 made by plan members. In addition, member contributions of \$2,416 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, no members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.oh.sers.org under Employers/Audit Resources.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. In addition,

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employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$35,800. During fiscal year 2012, the School district paid \$30,411 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,434, \$5,556, and \$10,316 respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 67 percent has been contributed for fiscal year 2010, with the balance being reported as an intergovernmental payable.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010 were \$10,137, \$2,953, and \$15,681 respectively; 100 percent has been contributed for fiscal years 2012, 2011, and 67 percent has been contributed for fiscal year 2010, with the balance being reported as an intergovernmental payable.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307, authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$53,070 \$58,645 and \$62,010 respectively. For fiscal year 2012, 78.5 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 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 do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for one-fourth of

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accrued, but unused sick leave up to maximum of 52 days for non-certificated employees and 53 days for the certified employees.

B. Health/Life Insurance

The School District provides medical, health, and prescription drug coverage for all eligible employees through the Health Plan and Health Assurance. The Health Plan is at a premium rate of \$1,354.16 for a family plan and \$541.66 for a single plan. The Health Assurance is at a premium rate of \$1,758.65 for a family plan and \$703.18 for a single plan. The Board pays 95 percent of the premiums for certified employees for either of these health insurance options. The Board pays 95 percent of the premiums for non-certified employees who work a 35 to 40 hours per week. Employees who work less than a 35 hour work week, receive a benefit where, the Board's share of the premium is calculated on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource which is 100 percent Board paid for the certified employees and on a declining scale paid by the Board for the non-certificated employees at a premium of \$62.27 and \$6.25 respectively. Life insurance is provided in the amount of \$50,000 for superintendent, \$50,000 for the treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of the \$9.79 premium for those on the single or family plan.

C. Retirement Incentive

Per the provision in the agreement between the Martins Ferry City School District Board of Education and the Martins Ferry Education Association, the Martins Ferry City School District Board of Education will provide a retirement incentive of \$1,000 times each year of Martins Ferry City School service (not to exceed \$13,000) to any teaching employee who is eligible for full retirement under any of Ohio's public employee retirement systems, provided the conditions stated in the agreement on file with the School District are met. The District had \$26,120 outstanding in retirement incentives payable that are scheduled to be repaid through 2015.

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into a capital lease to finance the construction of a new grandstand facility at the stadium. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lesser. During fiscal year 2008, the School District entered into two additional capital leases through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority to finance additional project costs associated with the classroom facilities project. During fiscal year 2012, the School District also entered into a capital lease for copiers, which included an amount for early termination of the existing lease.

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. In the future when capital lease payments are made, they will be reflected as debt service expenditures in the basic financial statements for the governmental funds.

The assets acquired by the leases have been capitalized in government wide statements governmental activities as land, buildings and improvements, and furniture, fixtures and equipment in the amount of \$4,524,640, 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 for the

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

total value of the lease. Governmental activities assets are reflected net of accumulated depreciation, \$3,732,291. Principal payments in fiscal year 2012 totaled \$648,355 in the governmental funds.

Future minimum lease payments through 2032 are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total</u>
2013	\$181,322	\$172,042	\$353,364
2014	191,894	163,338	355,232
2015	202,658	154,112	356,770
2016	213,627	144,354	357,981
2017	172,487	135,260	307,747
2018-2022	855,869	554,901	1,410,770
2023-2027	835,780	364,380	1,200,160
2028-2032	755,762	123,028	878,790
Total	<u>\$3,409,399</u>	<u>\$1,811,415</u>	<u>\$5,220,814</u>

NOTE 16 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Amounts Due In One Year
2005 School Construction and Improvement General Obligation Bonds					
Serial Bonds, \$4,940,000 @ 3.0%-4.55%	\$4,020,000	\$0	\$3,190,000	\$830,000	\$185,000
Term Bonds, \$5,580,000 @ 5.0%	5,580,000	0	5,475,000	105,000	0
Premium, \$355,273	275,973	0	225,948	50,025	0
Total 2005 Bonds	<u>9,875,973</u>	<u>0</u>	<u>8,890,948</u>	<u>985,025</u>	<u>185,000</u>
2012 Refunding Bonds					
Serial Bonds, \$8,190,000 @ 1.0%-4.0%	0	8,190,000	0	8,190,000	255,000
Capital Appreciation Bond, \$294,992 @ 6.828%-20.854%	0	294,992	0	294,992	0
CAB Accretion	0	0	0	0	0
Premium, \$1,589,927	0	1,589,927	0	1,589,927	0
Discount, \$79,106	0	(79,106)	0	(79,106)	0
Refunding Difference, \$1,131,713	0	(1,131,713)	0	(1,131,713)	0
Total 2012 Bonds	<u>0</u>	<u>8,864,100</u>	<u>0</u>	<u>8,864,100</u>	<u>255,000</u>
Total Bonds	<u>9,875,973</u>	<u>8,864,100</u>	<u>8,890,948</u>	<u>9,849,125</u>	<u>440,000</u>
Capital Leases	3,811,218	246,536	648,355	3,409,399	181,322
Compensated Absences	812,142	437,400	530,033	719,509	68,249
Total General Long-Term Obligations	<u>\$14,499,333</u>	<u>\$9,548,036</u>	<u>\$10,069,336</u>	<u>\$13,978,033</u>	<u>\$689,571</u>

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The capital leases will be repaid from the General Fund and Permanent Improvement Capital Projects Fund. Compensated absences will be paid from the General Fund.

2005 School Construction and Improvement General Obligation Bonds - On March 31, 2005, the School District issued \$10,520,000 in voted general obligation bonds which included serial and term bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program (approximately 86% of the total of the bonds), as well as a portion of the project that will not be covered under the Classroom Facilities Assistance Program that is the Local Fund Initiative (approximately 14% of the total of the bonds). The bonds were issued for a twenty-eight year period with a final maturity at December 1, 2032. During fiscal year 2012, the School District refunded \$8,485,000 of the serial and term bonds. The refunding resulted in an in-substance defeasance, and the refunded portion of the bonds were removed from the financial statements of the School District. The remaining outstanding serial and term bonds are being retired from the debt service fund.

As of June 30, 2012, \$8,485,000 of the refunded bonds remain outstanding and are considered defeased, and the escrow account has a balance of \$9,623,210 which will provide for the future debt service of the defeased bonds.

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

The term bonds that mature December 1, 2017 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1, 2017.

Principal and interest requirements to retire the remaining general obligation bonds for the 2005 School Construction and Improvement bonds outstanding at June 30, 2012 are as follows:

Fiscal Year			
Ending June 30	Principal	Interest	Total
2013	\$185,000	\$37,803	\$222,803
2014	210,000	31,050	241,050
2015	215,000	22,650	237,650
2016	220,000	14,050	234,050
2017	105,000	5,250	110,250
Total	\$935,000	\$110,803	\$1,045,803

2012 General Obligation Refunding Bonds – On April 19, 2012, Martins Ferry City School District issued \$8,484,992 of general obligation bonds. The bonds were issued to refund \$8,485,000 of outstanding 2005 School Construction and Improvement General Obligation Serial and Term Bonds. The bonds were issued for a 21 year period with final maturity at December 1, 2032. At the date of refunding, \$9,829,973 (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 2005 School Construction and Improvement General Obligation Serial and Term Bonds. The refunded bonds are scheduled to be fully called and repaid by June 1, 2015, through the escrow account. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$409,789. The issuance resulted in an economic gain of \$309,643.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

These refunding bonds were issued with a premium of \$1,589,927, and a discount of \$79,106. There was no amortization of the premium or discount for fiscal year 2012, as the refunding occurred in April. These refunding bonds were issued with an issuance cost of \$165,840. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$1,131,713, which will be amortized over the life of the refunded debt, through June 1, 2015. There was no amortization of the refunding difference for fiscal year 2012, as the refunding occurred in April.

The 2012 bond issue consists of serial and capital appreciation bonds, \$8,190,000 and \$294,992, respectively.

The capital appreciation bonds for this issue mature December 1, 2017 through December 1, 2021. 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 a liability. The maturity amount of outstanding capital appreciation bonds is \$2,315,000. No accretion was recorded for fiscal year 2012, as the refunding occurred in April.

As part of the refunding bond issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of Aa2 from Moody's Investors Service for the bond issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

Principal and interest requirements to retire general obligation bonds for the 2012 Refunding Bonds outstanding at June 30, 2012 are as follows:

Fiscal Year	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2013	\$255,000	\$151,466	\$0	\$0	\$255,000	\$151,466
2014	160,000	243,070	0	0	160,000	243,070
2015	165,000	241,470	0	0	165,000	241,470
2016	165,000	238,995	0	0	165,000	238,995
2017	330,000	236,520	0	0	330,000	236,520
2018-2022	0	1,157,850	294,992	2,020,008	294,992	3,177,858
2023-2027	2,760,000	1,011,619	0	0	2,760,000	1,011,619
2028-2032	3,535,000	537,921	0	0	3,535,000	537,921
2033	820,000	32,800	0	0	820,000	32,800
Totals	\$8,190,000	\$3,851,711	\$294,992	\$2,020,008	\$8,484,992	\$5,871,719

The School District's overall legal debt margin was \$1,610,125, with an unvoted debt margin of \$111,270, at June 30, 2012.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Bond Insurance:

2005 School Construction and Improvement General Obligation Bonds – On November 25, 2008, Financial Security Assurance, Inc. (FSA) was downgraded by Moody’s Investor Services from Aaa to Aa3. On July 1, 2009, FSA, the original bond insurer for this bond issue, was acquired by Assured Guaranty Corp. On December 18, 2009, Assured Guaranty Corp.’s rating was confirmed at Aa3. On March 26, 2012, a credit opinion was issued by Moody’s Investor Services, for Assured Guaranty Corp., at Aa3, which represented no change from the previous action.

The downgrade of a bond insurer may not, in and by itself, create an immediate default under the bond indentures or other bond documents or cause any reallocation of rights or responsibilities among parties; however, it will likely have an adverse effect on the value of the bonds as they are traded in the secondary market.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Belmont-Harrison Vocational School District – The Belmont-Harrison Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school district’s elected boards, which possesses its own budgeting, appropriating, contracting and taxing authority. The Board also exercises total control over operations and designates management. During fiscal year 2012, the School District made no contributions to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Mark Lucas, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council) - The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council). The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board exercises total control over budgeting, appropriating, contracting and designating of management. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2012, the total amount paid to OME-RESA from the School District was \$99,007 for cooperative gas purchasing services, \$34,080 for technology services and \$4,324 for financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

Educational Regional Service System Region 12 (ERSS) - The School District participates in the Educational Regional Service System Region 12 (ERSS), a jointly governed organization consisting of educational entities within Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

implementation of State and regional initiatives and school improvement efforts. The Council has total control over operations including budgeting, appropriating, contracting and designation of management. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the Muskingum Valley Educational Service Center, 205 North Seventh Street, Zanesville Ohio, 43701.

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 has total control over operations including budgeting, appropriating, contracting and designation of management. The Council provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$325 for fiscal year 2012.

NOTE 18 – RELATED ORGANIZATIONS

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

NOTE 19 – INSURANCE PURCHASING POOL

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Districts that can meet the GRP's selection criteria. The firm of CompManagement provides administration, cost control, and actuarial services to the GRP.

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

NOTE 20 - 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 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.

Pursuant to State statute, the Board of Education expended all of the amounts previously set-aside for the budget reserve.

The following cash basis information describes the change in the year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements
Set-aside Restricted Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	257,685
Current Year Qualifying Expenditures	(92,428)
Current Year "Offsets"	(194,925)
Totals	(\$29,668)
Balance Carried Forward to Fiscal Year 2013	\$0
Set-aside Restricted Balance as of June 30, 2012	\$0

The School District had offsets and qualifying expenditures during the current fiscal year that reduced the set-aside amount for capital improvements to below zero. This excess may not be carried forward to offset future year set-aside requirements. The School District also has prior year capital expenditures paid from debt proceeds in connection with a school facilities project and an energy conservation project that may be carried forward to offset future set-aside requirements.

NOTE 21 - 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, 2012.

B. Oil/Gas Lease

The Board of Education has entered into two “Paid-Up” Oil and Gas Leases. The first lease is for 58.526 acres of property owned by the Martins Ferry Board of Education, and is effective December 23, 2011, for a five year period with XTO Energy, Inc (see Subsequent Event Note 22 for further details regarding a lease bonus.) The second lease is for 59.208 acres of property which is subject to a land lease agreement between the Board of Education and Ayers Limestone Quarry, Inc., and is effective March 26, 2012, for a period of five years with XTO Energy, Inc. In consideration of the execution of the second lease, the School District received a bonus of \$293,080 during fiscal year 2012, which was paid to Ayers Limestone Quarry, Inc. as an additional principal payment towards the outstanding capital lease, as provided for in the land lease agreement (see the Long Term Obligation Note 16 for further details). Both leases call for payments to the School District, in addition to the bonus, royalties in the amount of 19 percent for all oil and other liquid hydrocarbons and by-products produced and saved from the land, and all gas and other hydrocarbons and by-products. As of the date of the financial statements, the value of any potential royalties cannot be determined.

C. Litigation

The School District is currently party to pending litigation. It is not possible at this time to make a judgment as to whether there is a reasonable possibility of an unfavorable outcome which could result in a material judgment against the School District.

NOTE 22 - SUBSEQUENT EVENTS

A. Oil/Gas Lease Bonus

On August 26, 2012, the School District received \$289,704 which was the signing bonus for entering into the “Paid Up Oil and Gas Lease” with XTO Energy, Inc. for the 58.526 acres that is owned by the School District.

B. Schoolwide Pool

Effective August 13, 2012, the School District approved creation of a Schoolwide Pool Fund. Created under the No Child Left Behind Act of 2001, the Schoolwide Pool allows the School District to pool all federal, state, and local funds necessary in order to upgrade the instructional programs of the school buildings where at least forty percent of the students are from low-income families.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

C. Ongoing Contract Negotiations

As of the date of this report, the School District is still in contract negotiations with the classified staff represented by the Ohio Association of Public School Employees. Classified staff are currently working under an extension of the previous contract which expired on December 31, 2011.

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**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ <i>Pass-Through Grantor</i> Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed-Through Ohio Department of Education.</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program - Food Donation	N/A	10.555	\$24,657	\$24,657
Cash Assistance:				
School Breakfast Program	044347-05PU-12	10.553	197,935	197,935
National School Lunch Program	044347-LLP4-12	10.555	<u>301,437</u>	<u>301,437</u>
Cash Assistance Sub Total			<u>499,372</u>	<u>499,372</u>
Total U.S. Department of Agriculture/Child Nutrition Cluster			524,029	524,029
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed-Through Ohio Department of Education.</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	044347-C1S1-11	84.010	(19,890)	
	044347-C1S1-12		<u>558,421</u>	<u>682,036</u>
Title I Grants to Local Educational Agencies Subtotal			538,531	682,036
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	044347-12	84.389	<u>948</u>	<u>948</u>
Total Title I, Part A Cluster			539,479	682,984
Special Education, Grants to States (IDEA, Part B)	044347-6BSF-11	84.027	(3,755)	
	044347-6BSF-12		<u>279,389</u>	<u>342,481</u>
Total Special Education, Grants to States (IDEA, Part B)			275,634	342,481
Education Technology State Grants	044347-TJS1-11	84.318	(219)	
	044347-TJS1-12		<u>1,287</u>	<u>1,068</u>
Total Education Technology State Grants			1,068	1,068
Improving Teacher Quality State Grants	044347-TRS1-11	84.367	(5,900)	596
	044347-TRS1-12		<u>29,012</u>	<u>64,426</u>
Total Improving Teacher Quality State Grants			23,112	65,022
ARRA - State Fiscal Stabilization Fund, Recovery Act	044347-11	84.394		259,036
ARRA - Race to the Top Fund, Recovery Act	044347-12	84.395	1,400	1,400
Education Jobs Fund	044347-12	84.410	<u>415,818</u>	<u>415,818</u>
Total U.S. Department of Education			<u>1,256,511</u>	<u>1,767,809</u>
Total Federal Awards Receipts and Expenditures			<u>\$1,780,540</u>	<u>\$2,291,838</u>

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

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the fair value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Title I Grants to Local Educational Agencies	84.010	\$19,890
Special Education, Grants to States (IDEA, Part B)	84.027	3,755
Education Technology State Grants	84.318	219
Improving Teacher Quality State Grants	84.367	5,900



Dave Yost • Auditor of State

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

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
Martins Ferry, Ohio 43935

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 28, 2013. 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 Government's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings, that we consider significant deficiencies in internal control over financial reporting. We consider findings 2012-03 and 2012-04 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2012-01 and 2012-02.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 28, 2013.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies, pass-through entities, and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

February 28, 2013



Dave Yost • Auditor of State

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

Martins Ferry City School District
Belmont County
5001 Ayers Limestone Road
Martins Ferry, Ohio 43935

To the Board of Education:

Compliance

We have audited the compliance of the Martins Ferry City School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2012. The *Summary of Auditor's Results* section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School District's compliance based on our audit.

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

As described in Findings 2012-05 and 2012-06 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding Eligibility applicable to its Child Nutrition Cluster major federal program and the Cash Management requirement applicable to its Education Jobs Fund major federal program. Compliance with these requirements is necessary, in our opinion, for the School District to comply with requirements applicable to these programs

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 2012-05 and 2012-06 to be material weaknesses.

The School District's responses to the findings we identified are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated February 28, 2013.

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



Dave Yost
Auditor of State

February 28, 2013

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified for all major programs, except for Eligibility requirements applicable to the Child Nutrition Cluster and Cash Management requirements applicable to the Education Jobs Fund, which we qualified.
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster – CFDA #10.555 and #10.553 Education Jobs Fund – CFDA #84.410 State Fiscal Stabilization Fund – Education State Grants, Recovery Act - CFDA #84.394
<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?	No

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-01

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission.

At June 30, 2012, the following funds had appropriations which exceeded estimated resources:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Difference</u>
General	\$10,851,760	\$11,176,480	(\$324,720)
Permanent Improvement	132,723	327,428	(194,705)
Non-Public Schools	110,700	140,854	(30,154)
EMIS	1,306	5,724	(4,418)

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

Officials' Response: The chronological sequence of the process has not been adhered to in the manner required to appropriately monitor the estimated resources against the appropriations. Even though the actual year end revenues exceeded disbursements, following the proper sequence would reduce the risk of disbursements exceeding actual revenues. This process will be more closely adhered to in order to add a measure of control and to help reduce the risk of possible deficit spending in any fund. The utilization and updating of the budgetary spreadsheet will also aide in the timely filing of the amendments.

FINDING NUMBER 2012-02

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from making an expenditure unless it has been properly appropriated.

As of June 30, 2012, the following funds reflected expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
General	\$11,176,480	\$11,864,189	(\$687,709)
Title VI-B	338,230	348,114	(9,884)
Title I	539,442	709,433	(169,991)
Title II-A	23,100	70,462	(47,362)
Tech Grant II-D	1,064	53,332	(52,268)

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-02 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)

We recommend the School District Board and Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations.

Officials' Response: The SM12 is a monthly report that is used as a tool for the general fund comparison of the forecasted figures to the actual numbers. This same logic will be utilized to monitor the non-general fund expenditures as well. Utilizing this tool will assist in determining if steps need to be taken to adopt additional appropriations or to reduce spending.

FINDING NUMBER 2012-03

Significant Deficiency

The School District should establish internal controls to reasonably assure that the budgetary accounts, at the legal level of control or lower, are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The School District Treasurer did not accurately post estimated receipts and appropriation resolution/amendments to the accounting system.

Variances existed between the estimated receipts and the amounts posted to the accounting system. The following table details these variances:

<u>Fund</u>	<u>Amount per Last Amended Certificate</u>	<u>Amount Posted to Accounting System</u>	<u>Variance</u>
General	\$11,595,500	\$12,357,633	(\$762,133)
Permanent Improvement	83,000	132,070	(49,070)
Food Service	764,000	690,927	73,073
Rotary	3,380	3,044	336
Non-Public Schools	107,000	107,700	(700)
EMIS	0	8,000	(8,000)
Title VI-B	338,230	342,280	(4,050)
Title I	539,442	572,240	(32,798)
Title II-A	23,100	98,419	(75,319)
Tech Grant II-D	1,064	1,287	(223)

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-03 (Continued)

Significant Deficiency (Continued)

Variances existed between the appropriation resolution/amendments and the amounts posted to the accounting system. The following table details these variances:

<u>Fund</u>	<u>Amount per Final Appropriation Resolution</u>	<u>Amount Posted to Accounting System</u>	<u>Variance</u>
General	\$11,176,480	\$12,280,080	(\$1,103,600)
Permanent Improvement	327,428	144,428	183,000
Rotary	9,410	16,339	(6,929)
Non-Public Schools	140,854	79,985	60,869
EMIS	5,724	8,724	(3,000)
Title VI-B	338,230	353,306	(15,076)
Title I	539,442	908,942	(369,500)
Title II-A	23,100	142,249	(119,149)
Tech Grant II-D	1,064	53,461	(52,397)

As a result, School District management could not effectively monitor budget verses actual activity and budgetary violations can occur.

We recommend the School District Treasurer post to the accounting system estimated receipts per the Official Certificate of Estimated Resources received from the County Auditor and post appropriations and any amendments made to them into the accounting system after approved by the School District Board to help ensure effective budgetary monitoring.

Officials' Response: The budgetary spreadsheet will be maintained to help monitor the estimated resources and appropriations. It will also be used as a tool to update the accounting system and make any amendments as approved by the Martins Ferry City School District Board of Education. This will help assure the effective monitoring of estimated versus actual activity.

FINDING NUMBER 2012-04

Significant Deficiency

As part of the School District's internal control process over non-payroll expenditures, when goods have been received, the invoice, packing slip or documentation accompanying the purchase, should be marked "okay to pay" by the receiver and such information should be sent to the Treasurer's office. Invoices are matched with the purchase orders by the Treasurer's Fiscal Assistant for all expenditures. Payments cannot be made unless there is a purchase order number to charge the expenditure against. The Treasurer's Fiscal Assistant then prepares the purchase order for payment by marking the purchase order as "paid or "partial payment" and attaches the purchase order to the requisition (if applicable) and invoice.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

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

FINDING NUMBER 2012-04 (Continued)

Significant Deficiency (Continued)

Although there were purchase orders for all expenditures tested, for 32% of expenditures tested the invoices were not marked "okay to pay", nor was there any other indication that these goods or services were received.

To prevent unauthorized payments to vendors, we recommend when goods or services have been received, the authorized School District employee indicate on the invoice that it is "okay to pay". If the invoice or requisition is not marked "okay to pay" the Treasurer's office should not process the payment until the matter is resolved.

Officials' Response: The Treasurer's office will strongly enforce the process of receipting goods and services from vendors. The chronological process from requisitioning the items to paying the invoice will be closely monitored. Without written indication of receipt, no payment will be processed.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2012-05

Finding Number	2012-05
CFDA Title and Number	Child Nutrition Cluster CFDA # 10.555 and 10.553
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness - Eligibility

7 C.F.R. Section 245.6(a) states each local educational agency, as defined in Section 245.2, for schools participating in the National School Lunch Program, School Breakfast Program or Special Milk Program or a commodity only school, shall provide meal benefit forms for use by families in making application for free or reduced price meals or free milk for their children.

7 C.F.R. Section 245.6(c) states that except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a household submits an application or, if feasible, through direct certification, at any time during the school year.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-05 (Continued)

Noncompliance and Material Weakness – Eligibility (Continued)

7 C.F.R. Section 245.6(c)(4) states the local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in Section 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

8% of applications tested were approved by the Building Principal and Food Service Coordinator as meeting the income eligibility guidelines when they did not due to the income reported on these applications being in excess of the income eligibility guideline thresholds for both free and reduced lunches based on household size reported.

The School District is at risk of effects on the federal funding based on improperly granting eligibility status to students whose reported income and household size exceed the income eligibility guidelines stipulated by the federal government

We recommend the School District develop internal controls procedures to ensure only those students who meet the eligibility criteria receive free or reduced price meals.

Officials' Response and Corrective Action Plan: This has already been addressed by the Superintendent and Treasurer with a meeting of the cafeteria supervisor and principals. Both the cafeteria supervisor and the principals will take steps to determine the eligibility for free or reduced lunches and adhere to the guidelines set forth by the federal government.

Responsible contact person – Karen Blake, Treasurer; Anticipated completion date – June 30, 2013.

FINDING NUMBER 2012-06

Finding Number	2012-06
CFDA Title and Number	Education Jobs Fund; CFDA # 84.410
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness – Cash Management

34 C.F.R. 80.21(c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. 34 C.F.R 80.20(b)(7) states in part that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used.

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-06 (Continued)

Noncompliance and Material Weakness – Cash Management (Continued)

When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount that apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 C.F.R. 80.21). To receive approval consideration, cash requests must be made *for immediate needs for the month requested*. **Ohio Department of Education Project Cash Request Instructions** state the Ohio Department of Education (ODE) will initiate the first payment of project funds to school districts and agencies upon project approval. Subsequent payments must be requested as needed and for immediate cash needs. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the "Cash Management Act" 31 C.F.R. part 205, the time lapsed between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds MUST be expended within the period of time for which cash is requested.

For the Education Jobs Fund Grant, 3 of 8 drawdowns were not spent by the end of the month for which the monies were requested.

We recommend the School District Treasurer review the process for requesting federal dollars to ensure the advance funds are used in the month in which they were received.

Officials' Response and Corrective Action Plan: Cash management of the federal dollars will be more closely monitored. EDJOBS did have a zero or negative balance for 75% of the months and minimal account balances for the remaining 25%. However, less than 100% is not acceptable, so measures to expend the money in the months it is received will be taken.

Responsible contact person – Karen Blake, Treasurer; Anticipated completion date – June 30, 2013.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code Section 5705.10, General Fund reflected a negative cash fund balance at year-end.	No	Partially Corrected; Reissued in Management Letter for funds other than General Fund.
2011-002	Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in several funds.	No	Not Corrected; Reissued as Finding No. 2012-01.
2011-003	Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations in several funds.	No	Not Corrected; Reissued as Finding No. 2012-02.
2011-004	Ohio Rev. Code Section 5705.41(D), prior certification of available funds not always obtained prior to incurring the obligation.	No	Partially Corrected; Reissued in Management Letter.
2011-005	Significant Deficiency – Not always indicating “Okay to Pay” on invoices verifying goods or services were actually received prior to paying the vendor.	No	Not Corrected; Reissued as Finding No. 2012-04.
2011-006	34 C.F.R. 80.20(b)(7) minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.	No	Not Corrected; Reissued as Finding No. 2012-06.



Dave Yost • Auditor of State

MARTINS FERRY CITY SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2013**