



Dave Yost • Auditor of State

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons for the General and Schoolwide Pool Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the School District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Federal Award Receipts and Expenditures Schedule (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule 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 Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 14, 2014

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Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
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, 2013. 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 2013 are as follows:

- In total, net position decreased \$606,525.
- General revenues accounted for \$12,255,276 in revenue or approximately 76 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions, accounted for \$3,883,967 or approximately 24 percent of total revenues of \$16,139,243.
- Total assets of governmental activities decreased \$488,532. Current assets increased by \$699,789 primarily due to increased cash and cash equivalents resulting from the signing bonus received from the "Paid Up" oil and gas lease with XTO Energy, Inc., along with increases in property tax receivables. Capital assets decreased \$1,188,321 primarily due to depreciation expense which was offset slightly by capital asset additions.
- The School District had \$16,745,768 in expenses related to governmental activities; only \$3,883,967 of these expenses were offset by program specific charges for services, and operating grants and contributions. General revenues of \$12,255,276 were not adequate to provide for these programs.
- Total governmental funds had \$16,221,189 in revenues and \$15,847,198 in expenditures. Overall, including other financing sources and uses, Total Governmental Funds' balance increased \$458,944.

Using this Annual Financial Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Martins Ferry City School District, the General Fund, the Schoolwide Pool Special Revenue Fund, and the Debt Service Fund are the only major or significant funds.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Reporting the School District as a Whole

Statement of Net Position 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 2013?" The Statement of Net Position 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 position and changes in those assets. This change in net position 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 Position 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 10. 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, the Schoolwide Pool Special Revenue 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 Position 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, 2013
Unaudited

Reporting the School District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for individuals, private organizations, and other government units. These activities are reported as agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

Table 1
Net Position
Governmental Activities

	2013	2012	Net Change
Assets			
Current and Other Assets	\$6,399,369	\$5,699,580	\$699,789
Capital Assets	39,135,064	40,323,385	(1,188,321)
Total Assets	<u>45,534,433</u>	<u>46,022,965</u>	<u>(488,532)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	<u>905,370</u>	<u>1,131,713</u>	<u>(226,343)</u>
Liabilities			
Long-Term Liabilities	14,676,622	15,109,746	(433,124)
Other Liabilities	<u>1,732,116</u>	<u>1,650,164</u>	<u>81,952</u>
Total Liabilities	<u>16,408,738</u>	<u>16,759,910</u>	<u>(351,172)</u>
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current Year Operations	<u>2,903,076</u>	<u>2,660,254</u>	<u>242,822</u>
Net Position (Deficit)			
Net Investment in Capital Assets	26,343,676	27,114,886	(771,210)
Restricted	1,538,079	1,539,856	(1,777)
Unrestricted	<u>(753,766)</u>	<u>(920,228)</u>	<u>166,462</u>
Total Net Position	<u>\$27,127,989</u>	<u>\$27,734,514</u>	<u>(\$606,525)</u>

Total assets of governmental activities decreased \$488,532. Current assets increased by \$699,789 primarily due to increased cash and cash equivalents resulting from the signing bonus for the oil and gas lease with XTO Energy, Inc., along with increases in property tax receivables mainly due to increased assessed valuation. Capital assets decreased \$1,188,321 due primarily to depreciation expense which was offset slightly by capital asset additions.

Total liabilities decreased \$351,172 primarily due to decreased long-term liabilities from annual debt service payments on bonds and capital leases, which was offset slightly by increases in compensated absences. The decrease in long-term liabilities was offset slightly by an increase in other liabilities primarily due to an increase in accrued wages and benefits.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2 shows the changes in net position for fiscal year 2013 compared to fiscal year 2012.

Table 2
Changes in Net Position

	Governmental Activities		
	2013	2012	Net Change
Revenues			
<i>Program Revenue</i>			
Charges for Services	\$1,569,002	\$1,854,586	(\$285,584)
Operating Grants and Contributions	2,314,965	2,630,676	(315,711)
Total Program Revenue	3,883,967	4,485,262	(601,295)
<i>General Revenue</i>			
Property Taxes	2,902,319	2,697,343	204,976
Grants and Entitlements	9,156,004	9,131,918	24,086
Gifts and Donations	10,292	12,425	(2,133)
Investments	2,558	492	2,066
Gain on Sale of Capital Assets	10,500	0	10,500
Miscellaneous	173,603	71,713	101,890
Total General Revenue	12,255,276	11,913,891	341,385
Total Revenues	16,139,243	16,399,153	(259,910)
Program Expenses			
Instruction:			
Regular	7,730,372	6,831,902	898,470
Special	1,414,909	1,697,138	(282,229)
Vocational	354,377	327,510	26,867
Student Intervention Services	74,265	70,120	4,145
Support Services:			
Pupil	616,280	593,422	22,858
Instructional Staff	659,600	476,559	183,041
Board of Education	39,520	75,403	(35,883)
Administration	1,154,467	1,163,688	(9,221)
Fiscal	350,153	287,766	62,387
Operation and Maintenance of Plant	1,234,778	1,387,740	(152,962)
Pupil Transportation	865,909	734,718	131,191
Central	57,896	156,597	(98,701)
Operation of Non-Instructional Services	140,238	122,448	17,790
Food Service Operations	839,134	742,061	97,073
Extracurricular Activities	478,188	413,524	64,664
Interest and Fiscal Charges	735,682	781,727	(46,045)
Total Expenses	16,745,768	15,862,323	883,445
Increase (Decrease) in Net Position	(606,525)	536,830	(1,143,355)
Net Position Beginning of Year	27,734,514	27,197,684	536,830
Net Position End of Year	\$27,127,989	\$27,734,514	(\$606,525)

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Governmental Activities

Property taxes comprise 18 percent of revenues for the School District, whereas unrestricted grants and entitlements comprise 57 percent of revenues for fiscal year 2013. Program revenue operating grants decreased \$315,711 from the prior year primarily due to the School District receiving the last of its Education Jobs federal funding during fiscal year 2012. Charges for services decreased \$285,584 primarily due to a decrease in tuition and fees associated with a decrease in open enrollment.

Instruction comprises approximately 57 percent of governmental program expenses, and reflected an increase of \$647,253 from fiscal year 2012. Overall, program expenses of the School District increased \$883,445. The increase is primarily due to the School District reinstating the five percent reduction in pay for all employees that had been a part of the School District's cost savings plan in fiscal year 2011.

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 2013 compared to fiscal year 2012. 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	
	2013	2012	2013	2012
Instruction:				
Regular	\$7,730,372	\$6,831,902	\$5,929,365	\$5,031,767
Special	1,414,909	1,697,138	1,064,066	899,548
Vocational	354,377	327,510	237,217	210,350
Student Intervention Services	74,265	70,120	74,265	70,120
Support Services:				
Pupil	616,280	593,422	607,915	588,489
Instructional Staff	659,600	476,559	552,816	346,463
Board of Education	39,520	75,403	39,520	75,403
Administration	1,154,467	1,163,688	1,154,467	1,034,636
Fiscal	350,153	287,766	157,766	186,756
Operation and Maintenance of Plant	1,234,778	1,387,740	945,075	1,094,660
Pupil Transportation	865,909	734,718	865,909	734,718
Central	57,896	156,597	57,896	49,895
Operation of Non-Instructional Services	140,238	122,448	(1,443)	8,194
Food Service Operations	839,134	742,061	67,613	(41,822)
Extracurricular Activities	478,188	413,524	373,672	306,157
Interest and Fiscal Charges	735,682	781,727	735,682	781,727
Total Expenses	\$16,745,768	\$15,862,323	\$12,861,801	\$11,377,061

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as approximately 77 percent of total expenses are supported through taxes and other general revenues.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. The School District has three major funds, the General Fund, the Schoolwide Pool Special Revenue Fund, and the Debt Service Fund. The General Fund had \$12,963,405 in revenues and \$11,153,713 in expenditures. Including other financing sources and uses, the General Fund's balance increased \$469,288. The Schoolwide Pool Fund had \$784,732 in revenues and \$2,210,089 in expenditures. Including other financing sources, the Schoolwide Pool had no change in fund balance. The Debt Service Fund had revenues in the amount of \$683,719 and expenditures in the amount of \$763,718, which resulted in a fund balance decrease in the amount of \$79,999.

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 2013, the School District amended its General Fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. The changes between the original and the final budget reflected significant increases in property taxes, and intergovernmental revenue estimates. Changes between original and final budgeted appropriations were not significant. The actual results of operations were different than budgeted amounts as spending in almost all categories was lower than budgeted appropriations; there was no significant difference between final estimated revenues and actual.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$39,135,064 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles, net of depreciation. Table 4 shows fiscal year 2013 balances compared to fiscal year 2012.

Table 4
Capital Assets Net of Depreciation

	Government Activities	
	2013	2012
Land	\$2,436,556	\$2,436,556
Land Improvements	2,909,552	3,064,456
Buildings and Improvements	32,975,638	33,968,955
Furniture and Equipment	559,265	694,203
Vehicles	254,053	159,215
Totals	<u>\$39,135,064</u>	<u>\$40,323,385</u>

See Note 10 for more detailed information of the School District's capital assets.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Debt

At June 30, 2013, the School District had \$10,565,946 in outstanding general obligation bonds including accretion of interest on capital appreciation bonds, premiums, and discounts. In addition, the School District had \$3,277,689 in outstanding capital leases.

Table 4
Outstanding Debt at Fiscal Year End
Governmental Activities

	<u>2013</u>	<u>2012</u>
2005 School Construction and Improvement Bonds		
Serial/Term Bonds	\$750,000	\$935,000
Premium	40,020	50,025
2012 Refunding Bonds		
Serial Bonds	7,935,000	8,190,000
Capital Appreciation Bonds	294,992	294,992
Accretion on Capital Appreciation Bonds	106,857	0
Premium	1,514,416	1,589,927
Discount	(75,339)	(79,106)
Capital Leases	<u>3,277,689</u>	<u>3,409,399</u>
Total	<u><u>\$13,843,635</u></u>	<u><u>\$14,390,237</u></u>

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

Economic Factors

The School District began fiscal year 2013 with a General Fund deficit fund balance. The School District implemented a schoolwide pool for the elementary school, where 40 percent of the student population qualifies for a free or reduced lunch, which combines General Fund moneys with Title I and Title II-A federal moneys that allows the School District more flexibility for the use of Federal funds. The two-year five percent salary reduction and the freeze on salary steps and columns were reinstated in fiscal year 2013. Employees were placed on the salary schedules where they would have been had the freeze had not taken place. The School District received an oil and gas lease signing bonus, which was used for capital asset additions, including buses, and improvements to athletic facilities.

The School District Board of Education approved a forecast reflecting a slight decrease in revenues for fiscal year 2014. The School District State Foundation revenue is forecasted to increase for fiscal years 2014 and 2015. The increase is offset by amount of the one-time oil and gas lease bonus dollars received in fiscal year 2013. The forecast reflects increases in expenditures for fiscal year 2014. Salary and wage expenses are expected to increase as a result of a two and one-half percent increase in stipends for certified staff as part the current negotiated agreement. Retirement benefits are expected to increase in correlation to the increases in wages. Health benefits expenses are also expected to continue to increase.

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 Position
June 30, 2013

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,382,299
Intergovernmental Receivable	343,261
Materials and Supplies Inventory	52,677
Property Taxes Receivable	3,621,132
Non-Depreciable Capital Assets	2,436,556
Depreciable Capital Assets, Net	36,698,508
 Total Assets	 45,534,433
Deferred Outflows of Resources	
Deferred Charge on Refunding	905,370
Liabilities	
Accrued Wages and Benefits Payable	1,176,690
Intergovernmental Payable	383,012
Accrued Interest Payable	22,530
Vacation Benefits Payable	62,210
Matured Severance Payable	66,014
Retirement Incentive Payable	21,660
Long-Term Liabilities:	
Due Within One Year	647,424
Due In More Than One Year	14,029,198
 Total Liabilities	 16,408,738
Deferred Inflows of Resources	
Property Taxes not Levied to Finance Current Year Operations	2,903,076
Net Position (Deficit)	
Net Investment in Capital Assets	26,343,676
Restricted for:	
Debt Service	893,764
Capital Projects	241,446
Food Service	216,303
Classroom Facilities Maintenance	125,221
State Programs	41,224
Other Purposes	20,121
Unrestricted	(753,766)
 Total Net Position	 \$27,127,989

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$7,730,372	\$938,092	\$862,915	(\$5,929,365)
Special	1,414,909	0	350,843	(1,064,066)
Vocational	354,377	0	117,160	(237,217)
Student Intervention Services	74,265	0	0	(74,265)
Support Services:				
Pupil	616,280	0	8,365	(607,915)
Instructional Staff	659,600	0	106,784	(552,816)
Board of Education	39,520	0	0	(39,520)
Administration	1,154,467	0	0	(1,154,467)
Fiscal	350,153	0	192,387	(157,766)
Operation and Maintenance of Plant	1,234,778	289,703	0	(945,075)
Pupil Transportation	865,909	0	0	(865,909)
Central	57,896	0	0	(57,896)
Operation of Non-Instructional Service	140,238	0	141,681	1,443
Food Service Operations	839,134	236,691	534,830	(67,613)
Extracurricular Activities	478,188	104,516	0	(373,672)
Interest and Fiscal Charges	735,682	0	0	(735,682)
<i>Total Governmental Activities</i>	<u>\$16,745,768</u>	<u>\$1,569,002</u>	<u>\$2,314,965</u>	<u>(12,861,801)</u>

General Revenues

Property Taxes Levied for General Purposes	2,214,542
Property Taxes Levied for Capital Outlay	76,629
Property Taxes Levied for Debt Service	556,559
Property Taxes Levied for Building Maintenance	54,589
Grants and Entitlements not Restricted to Specific Programs	9,156,004
Gifts and Donations	10,292
Investment Earnings	2,558
Gain on Sale of Capital Assets	10,500
Miscellaneous	173,603
<i>Total General Revenues</i>	<u>12,255,276</u>
Change in Net Position	(606,525)
<i>Net Position Beginning of Year</i>	<u>27,734,514</u>
<i>Net Position End of Year</i>	<u>\$27,127,989</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Schoolwide Pool	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$907,690	\$0	\$813,415	\$650,194	\$2,371,299
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	11,000	0	0	0	11,000
Receivables:					
Property Taxes	2,756,333	0	709,976	154,823	3,621,132
Intergovernmental	81,828	0	0	261,433	343,261
Interfund	209,117	309,234	0	0	518,351
Materials and Supplies Inventory	35,281	0	0	17,396	52,677
<i>Total Assets</i>	<u>\$4,001,249</u>	<u>\$309,234</u>	<u>\$1,523,391</u>	<u>\$1,083,846</u>	<u>\$6,917,720</u>
Liabilities and Fund Balances					
Liabilities					
Accrued Wages and Benefits Payable	\$823,084	\$306,002	\$0	\$47,604	\$1,176,690
Interfund Payable	276,510	0	0	241,841	518,351
Intergovernmental Payable	341,322	3,232	0	38,458	383,012
Matured Severance Payable	66,014	0	0	0	66,014
Retirement Incentive Payable	21,660	0	0	0	21,660
<i>Total Liabilities</i>	<u>1,528,590</u>	<u>309,234</u>	<u>0</u>	<u>327,903</u>	<u>2,165,727</u>
Deferred Inflows of Resources					
Property Taxes not Levied to Finance Current Year Operations	2,213,371	0	567,077	122,628	2,903,076
Unavailable Revenue	475,094	0	110,465	24,823	610,382
<i>Total Deferred Inflows of Resources</i>	<u>2,688,465</u>	<u>0</u>	<u>677,542</u>	<u>147,451</u>	<u>3,513,458</u>
Fund Balances (Deficit)					
Nonspendable:					
Inventories	35,281	0	0	17,396	52,677
Restricted for:					
Debt Service	0	0	845,849	0	845,849
Capital Projects	0	0	0	222,829	222,829
Food Service Operations	0	0	0	198,907	198,907
Classroom Facilities Maintenance	0	0	0	119,015	119,015
Local Programs	0	0	0	9,121	9,121
State Programs	0	0	0	41,224	41,224
Underground Storage Tank Premium	11,000	0	0	0	11,000
Unassigned	(262,087)	0	0	0	(262,087)
<i>Total Fund Balances (Deficit)</i>	<u>(215,806)</u>	<u>0</u>	<u>845,849</u>	<u>608,492</u>	<u>1,238,535</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$4,001,249</u>	<u>\$309,234</u>	<u>\$1,523,391</u>	<u>\$1,083,846</u>	<u>\$6,917,720</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2013*

Total Governmental Fund Balances \$1,238,535

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 39,135,064

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

Property Taxes	553,998	
Tuition and Fees	56,384	
Total	610,382	610,382

The unamortized portion of the difference on refunding represents deferred charges on
refunding, which are not reported in the funds. 905,370

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas
in the governmental funds, an interest expenditure is reported when due. (22,530)

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	8,685,000	
Premium on Serial/Term Bonds	40,020	
General Obligation Bonds - Capital Appreciation Bonds	294,992	
Capital Appreciation Bond Interest Accretion	106,857	
Premium on Capital Appreciation Bonds	1,514,416	
Discount on Serial Bonds	(75,339)	
Capital Leases	3,277,689	
Compensated Absences	832,987	
Vacation Benefits Payable	62,210	
Total	(14,738,832)	(14,738,832)

Net Position of Governmental Activities \$27,127,989

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, 2013

	General	Schoolwide Pool	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$2,238,640	\$0	\$563,240	\$133,955	\$2,935,835
Intergovernmental	9,273,164	784,732	118,209	1,298,626	11,474,731
Interest	0	0	39	2,519	2,558
Tuition and Fees	981,463	0	0	0	981,463
Extracurricular Activities	0	0	0	104,516	104,516
Rent	289,703	0	0	0	289,703
Contributions and Donations	0	0	0	10,292	10,292
Charges for Services	11,797	0	0	236,691	248,488
Miscellaneous	168,638	0	2,231	2,734	173,603
<i>Total Revenues</i>	<u>12,963,405</u>	<u>784,732</u>	<u>683,719</u>	<u>1,789,333</u>	<u>16,221,189</u>
Expenditures					
Current:					
Instruction:					
Regular	4,930,439	1,969,792	0	159,831	7,060,062
Special	765,447	240,297	0	264,949	1,270,693
Vocational	336,159	0	0	0	336,159
Student Intervention Services	72,812	0	0	0	72,812
Support Services:					
Pupil	579,642	0	0	7,985	587,627
Instructional Staff	482,957	0	0	106,784	589,741
Board of Education	39,520	0	0	0	39,520
Administration	1,050,669	0	0	0	1,050,669
Fiscal	320,821	0	16,291	3,874	340,986
Operation and Maintenance of Plant	1,078,948	0	0	0	1,078,948
Pupil Transportation	777,635	0	0	0	777,635
Central	57,886	0	0	0	57,886
Operation of Non-Instructional Services	0	0	0	136,321	136,321
Food Service Operations	0	0	0	717,426	717,426
Extracurricular Activities	272,266	0	0	115,354	387,620
Capital Outlay	97,803	0	0	114,154	211,957
Debt Service:					
Principal Retirement	156,163	0	440,000	50,000	646,163
Interest and Fiscal Charges	134,546	0	307,427	43,000	484,973
<i>Total Expenditures</i>	<u>11,153,713</u>	<u>2,210,089</u>	<u>763,718</u>	<u>1,719,678</u>	<u>15,847,198</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,809,692</u>	<u>(1,425,357)</u>	<u>(79,999)</u>	<u>69,655</u>	<u>373,991</u>
Other Financing Sources (Uses)					
Inception of Capital Leases	74,453	0	0	0	74,453
Transfers In	0	1,425,357	0	0	1,425,357
Sale of Capital Assets	10,500	0	0	0	10,500
Transfers Out	(1,425,357)	0	0	0	(1,425,357)
Total Other Financing Sources (Uses)	<u>(1,340,404)</u>	<u>1,425,357</u>	<u>0</u>	<u>0</u>	<u>84,953</u>
<i>Net Change in Fund Balances</i>	469,288	0	(79,999)	69,655	458,944
<i>Fund Balances (Deficit) Beginning of Year</i>	(685,094)	0	925,848	538,837	779,591
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$215,806)</u>	<u>\$0</u>	<u>\$845,849</u>	<u>\$608,492</u>	<u>\$1,238,535</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, 2013*

Net Change in Fund Balances - Total Governmental Funds		\$458,944
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
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	227,576	
Depreciation Expense	<u>(1,415,897)</u>	
Total		(1,188,321)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Property Taxes	(33,516)	
Grants	(3,762)	
Tuition and Fees	<u>(55,168)</u>	
Total		(92,446)
The refunding difference is allocated as a reduction of expenses in the statement of activities over the life of the bonds		
		(226,343)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt in the statement of activities, and the accretion of interest on capital appreciation bonds is reported in the statement of activities.		
Accrued Interest	742	
Accretion on Capital Appreciation Bonds	<u>(106,857)</u>	
Total		(106,115)
Bond premiums are reported as other financing sources in the governmental funds, but are allocated as an expense over the life of the bonds in the statement of activities.		
		85,516
Bond discounts are reported as other financing uses in the governmental funds, but are allocated as an expense over the life of the bonds in the statement of activities.		
		(3,767)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds - Serial	440,000	
Capital Leases	<u>206,163</u>	
Total		646,163
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.		
		(74,453)
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	7,775	
Compensated Absences	<u>(113,478)</u>	
Total		(105,703)
<i>Change in Net Position of Governmental Activities</i>		<u><u>(\$606,525)</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,065,722	\$2,272,342	\$2,214,657	(\$57,685)
Intergovernmental	8,652,082	9,517,493	9,251,734	(265,759)
Tuition and Fees	958,016	1,053,840	981,463	(72,377)
Rent	0	0	289,703	289,703
Charges for Services	0	0	11,797	11,797
Miscellaneous	299,380	329,325	168,638	(160,687)
<i>Total Revenues</i>	<u>11,975,200</u>	<u>13,173,000</u>	<u>12,917,992</u>	<u>(255,008)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,390,461	5,453,485	5,063,071	390,414
Special	838,517	848,320	784,902	63,418
Vocational	359,364	363,566	340,062	23,504
Student Intervention Services	59,894	60,594	72,465	(11,871)
Support Services:				
Pupil	598,941	605,943	582,248	23,695
Instructional Staff	479,152	484,754	467,739	17,015
Board of Education	59,894	60,594	39,551	21,043
Administration	1,197,881	1,211,886	1,119,396	92,490
Fiscal	359,364	363,566	327,250	36,316
Operation and Maintenance of Plant	1,197,881	1,211,886	1,087,253	124,633
Pupil Transportation	838,517	848,320	753,391	94,929
Central	59,894	60,594	52,682	7,912
Extracurricular Activities	299,470	302,971	282,287	20,684
Capital Outlay	89,841	90,891	23,350	67,541
Debt Service:				
Principal Retirement	149,735	151,486	90,693	60,793
Interest and Fiscal Charges	0	0	123,770	(123,770)
<i>Total Expenditures</i>	<u>11,978,806</u>	<u>12,118,856</u>	<u>11,210,110</u>	<u>908,746</u>
Excess of Revenues Over (Under) Expenditures	(3,606)	1,054,144	1,707,882	653,738
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	10,500	10,500
Advances In	0	0	266,436	266,436
Transfers Out	0	0	(1,148,847)	(1,148,847)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(871,911)</u>	<u>(871,911)</u>
<i>Net Change in Fund Balance</i>	(3,606)	1,054,144	835,971	(218,173)
<i>Fund Balance Beginning of Year</i>	245,540	245,540	245,540	0
Prior Year Encumbrances Appropriated	46,296	46,296	46,296	0
<i>Fund Balance End of Year</i>	<u>\$288,230</u>	<u>\$1,345,980</u>	<u>\$1,127,807</u>	<u>(\$218,173)</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Schoolwide Pool Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
<i>Total Revenues</i>	\$0	\$0	\$0	\$0
Expenditures				
Current:				
Instruction:				
Regular	0	0	1,689,596	(1,689,596)
Special	0	0	211,259	(211,259)
<i>Total Expenditures</i>	0	0	1,900,855	(1,900,855)
Excess of Revenues Under Expenditures	0	0	(1,900,855)	(1,900,855)
Other Financing Sources				
Transfers In	0	0	1,900,855	1,900,855
<i>Net Change in Fund Balance</i>	0	0	0	0
<i>Fund Balance Beginning of Year</i>	0	0	0	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$0	\$0

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2013

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$18,154</u>
<i>Total Assets</i>	<u><u>\$18,154</u></u>
Liabilities	
Due to Students	<u>\$18,154</u>
<i>Total Liabilities</i>	<u><u>\$18,154</u></u>

See accompanying notes to the basic financial statements

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Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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 55 non-certified employees, 102 certified full-time teaching personnel and 9 administrative employees, who provide services to 1,483 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 Martins Ferry City School District, this includes general operations, food service, and student related activities of the School District.

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.

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

The School District participates in 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 Retrospective Rating Program (GRRP) and the Ohio School Plan (OSP), which are defined as an insurance purchasing pool. These organizations are presented in Notes 17, 18, and 19.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

B. Fund Accounting

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

Schoolwide Pool Fund – The Schoolwide Pool Fund is used to account for all financial resources required to operate the elementary school. The No Child Left Behind Act of 2001 provided the authority to pool all federal state and local funds necessary to upgrade the instructional program of school buildings where forty percent or greater of the students are from low-income families. The fund is utilized to pay all costs associated with operating the elementary school.

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 Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the total net position.

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 inflows/outflows of resources, 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, 2013

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, tuition and fees, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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. No interest revenue was credited to the General Fund during fiscal year 2013.

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 2013, 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, 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 position 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 capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land	N/A
Construction in Progress	N/A
Land Improvements	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 Position.

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 are paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and loans are recognized as a liability on the governmental fund financial statements when due.

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M. Bond Discounts, Bond Premiums, and Bond Issuance Costs

On the government wide financial statements, bond insurance premiums, bond premiums and bond discounts are amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. On the governmental fund financial statements bond insurance premiums, bond premiums, bond discounts and bond issuance costs are recognized in the period in which the bonds are issued.

Bond issuance costs are expensed in the funds in the period the bonds are issued.

N. Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the difference on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the Statement of Net Position.

O. Interfund Activity

Transfers within government activities on the government-wide financial statements are reported in the same manner as general revenue.

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.

P. 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).

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Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

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. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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. State Statute authorizes the Board of Education to assign fund balances for purchases on order provided such amounts have been lawfully appropriated.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

Q. Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets, 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 position are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources from local sources restricted to expenditures for student programs and underground storage tank deductibles.

Martins Ferry City School District
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The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

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

For fiscal year 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 61, "The Financial Reporting Entity: Omnibus," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66 "Technical Corrections—2012 an amendment of GASB Statements No. 10 and No. 62."

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GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in 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 balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual presented for the General and Schoolwide Pool Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Transfers in and transfers out that are balance sheet transactions (GAAP) as opposed to operating transfers (Budget), as well as the reclassification of revenue that is required to be transferred on a cash (budget basis), but is reported as revenue on the operating statement (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Martins Ferry City School District
Notes to the Basic Financial Statements
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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.

	Net Change in Fund Balance	
	General	Schoolwide Pool
GAAP Basis	\$469,288	\$0
Revenue Accruals	(45,413)	(784,732)
Advances In	266,436	0
Transfer In	0	475,498
Expenditure Accruals	(56,397)	309,234
Inception of Capital Lease	(74,453)	0
Transfers Out	276,510	0
Budget Basis	\$835,971	\$0

NOTE 5 - ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficits

At June 30, 2013, the following fund had deficit fund balance:

	<u>Deficit Fund Balance</u>
General Fund	\$215,806

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

B. Legal Compliance

Expenditures exceeded appropriations contrary to Section 5705.41(B), Revised Code, in the Schoolwide Pool Special Revenue Fund in the amount of \$ 1,900,855.

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.

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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;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
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 \$2,794,716. Of the bank balance \$300,044 was covered by Federal Depository Insurance and the remaining balance of \$2,494,672 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.

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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's 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 year 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State Statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State Statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012, 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 advances to the School District its portion of the taxes collected. Second half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 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, 2013 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 reflected 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 inflows of resources – property taxes not levied to finance current year operations.

The amount available as an advance at June 30, 2013, was \$124,252 in the General Fund, \$32,434 in the Debt Service Fund, \$1,843 in the Classroom Maintenance Special Revenue Fund, and \$5,529 in the Permanent Improvement Capital Projects Fund. 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.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Martins Ferry City School District
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The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$105,912,920	94.3%	\$113,684,590	94.4%
Public Utility Personal	6,356,740	5.7%	6,788,720	5.6%
	\$112,269,660	100.0%	\$120,473,310	100.0%
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

NOTE 8 - RECEIVABLES

Receivables at June 30, 2013, consisted of property taxes, interfund, intergovernmental grants, rebates, and tuition and fees. 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 \$553,998 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	\$2,009
Workers' Compensation Rebate	26,738
Title I Grant	207,987
Title II-A Grant	50,143
Excess Costs from Other School Districts	56,384
Total Intergovernmental Receivables	\$343,261

NOTE 9 - INTERNAL BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at June 30, 2013, consist of the following interfund receivables and payables:

	Interfund Receivable		Total
	General Fund	Schoolwide Pool Fund	
<u>Interfund Payable</u>			
General Fund	\$0	\$276,510	\$276,510
Other Nonmajor			
Governmental Funds	209,117	32,724	241,841
Total	\$209,117	\$309,234	\$518,351

Martins Ferry City School District
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The balance due to the Schoolwide Pool Fund from the General and Other Governmental Funds are for costs associated with the operation of the elementary school in accordance with the schoolwide program that will be transferred as cash is needed to fund the program. The loans made to the Miscellaneous Federal Grants and Title I Special Revenue Funds were made to support the programs until federal monies are received.

B. Transfers

	Transfer from
	General Fund
Transfer to	
Schoolwide Pool Special Revenue Fund	\$1,425,357

Transfers were used to move receipts from the General Fund to the Schoolwide Pool Fund in accordance with the schoolwide program.

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance 6/30/12	Additions	Deletions	Balance 6/30/13
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	3,991,076	49,850	0	4,040,926
Buildings and Improvements	38,664,990	23,350	0	38,688,340
Furniture and Equipment	2,075,329	5,470	0	2,080,799
Vehicles	1,044,048	148,906	(133,142)	1,059,812
Total Depreciable Capital Assets	45,775,443	227,576	(133,142)	45,869,877
Accumulated Depreciation:				
Land Improvements	(926,620)	(204,754)	0	(1,131,374)
Buildings and Improvements	(4,696,035)	(1,016,667)	0	(5,712,702)
Furniture and Equipment	(1,381,126)	(140,408)	0	(1,521,534)
Vehicles	(884,833)	(54,068)	133,142	(805,759)
Total Accumulated Depreciation	(7,888,614)	(1,415,897)	133,142	(9,171,369)
Total Depreciable Capital Assets, Net	37,886,829	(1,188,321)	0	36,698,508
Governmental Capital Assets, Net	\$40,323,385	(\$1,188,321)	\$0	\$39,135,064

Depreciation expense was charged to governmental functions as follows:

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Instruction:	
Regular	\$595,142
Special	131,183
Vocational	13,937
Support Services:	
Pupil	19,677
Instructional Staff	65,591
Administration	103,561
Fiscal	13,118
Operation and Maintenance of Plant	162,605
Pupil Transportation	101,389
Food Service Operations	121,708
Operation of Non-Instructional Services	180
Extracurricular Activities	87,806
	87,806
Total Depreciation Expense	\$1,415,897

NOTE 11 - RISK MANAGEMENT

A. Property, Fleet and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013 the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 19). The School District contracted with the Ohio School Plan for liability, property, and fleet insurance. Coverage provided follows:

<i>Property:</i>	
Building and Contents - replacement cost (\$1,000 Deductible)	\$47,165,308
<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

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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

B. Flood Insurance

The School District contracted with the Federal Emergency Management Agency (FEMA) for flood coverage. The School District's flood insurance includes \$219,990 on buildings and \$35,300 on contents at the football facility.

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 Retrospective Rating Program (GRRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the overall benefit of a reduced workers' compensation premium for the School Districts. The participating School Districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based on the performance of the entire group. Participation in the GRRP is limited to School Districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc. provides administration, cost control, and actuarial services to the GRRP.

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 defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and

Martins Ferry City School District
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beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS 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 the 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, allocates 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, 2013, the allocation to pension and death benefits was 13.1 percent. The remaining 0.9 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, 2013, 2012, and 2011 were \$186,183, \$171,653, and \$45,888, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

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 can 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 payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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.

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 the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for

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members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2012, 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 \$784,107 and \$7,921 for the fiscal year ended June 30, 2013, \$714,606 and \$7,218 for the fiscal year ended June 30, 2012, and \$731,547 and \$7,389 for the fiscal year ended June 30, 2011. For fiscal year 2013, 76.18 percent has been contributed for the DB plan and 76.18 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 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2013 were \$274 made by the School District and \$196 made by the plan members. In addition, member contributions of \$6,826 were made for fiscal year 2013 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, 2013, 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, Medicare Advantage, 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 obligation to contribute are established by 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.ohsers.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 fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the School District paid \$33,600 in surcharge.

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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, 2013, 2012, and 2011 were \$2,274, \$7,434, and \$5,566, respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$10,517, \$10,137, and \$2,953 respectively; 100 percent has been contributed for fiscal years 2013, 2012, and 2011.

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 can 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 year 2013, 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, 2013, 2012, and 2011 were \$55,139, \$53,070, and \$58,645 respectively. For fiscal year 2013, 76.18 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

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 accrued, but unused sick leave up to maximum of 52 days for non-certificated employees and 54 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 \$1,475.55 for a family plan and \$590.22 for a single plan. The Health Assurance is at a premium rate of \$1,552.79 for a

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family plan and \$620.99 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 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 \$6.00 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 plan and \$27.19 for the 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 \$21,660 outstanding in retirement incentives payable that are scheduled to be repaid through 2016.

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. Prior to and during fiscal year 2013, the School District also entered into capital leases for copiers, and a school bus.

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 \$4,599,093, 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 total value of the lease. Governmental activities assets are reflected net of accumulated depreciation, \$3,801,780. Principal payments in fiscal year 2013 totaled \$206,163 in the governmental funds.

Future minimum lease payments through 2032 are as follows:

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Fiscal Year Ending	Principal	Interest and Fiscal Charges	Total
2014	\$209,780	\$164,896	\$374,676
2015	221,049	155,165	376,214
2016	232,537	144,888	377,425
2017	172,487	135,260	307,747
2018	177,785	126,377	304,162
2019-2023	830,567	516,777	1,347,344
2024-2028	873,739	324,207	1,197,946
2029-2032	559,745	76,948	636,693
Total	<u>\$3,277,689</u>	<u>\$1,644,518</u>	<u>\$4,922,207</u>

NOTE 16 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2013 were as follows:

	Principal Outstanding 6/30/12	Additions	Deductions	Principal Outstanding 6/30/13	Amounts Due In One Year
2005 School Construction and Improvement General Obligation Bonds					
Serial Bonds, \$4,940,000 @ 3.0%-4.55%	\$830,000	\$0	\$185,000	\$645,000	\$210,000
Term Bonds, \$5,580,000 @ 5.0%	105,000	0	0	105,000	0
Premium, \$355,273	50,025	0	10,005	40,020	0
Total 2005 Bonds	<u>985,025</u>	<u>0</u>	<u>195,005</u>	<u>790,020</u>	<u>210,000</u>
2012 Refunding Bonds					
Serial Bonds, \$8,190,000 @ 1.0%-4.0%	8,190,000	0	255,000	7,935,000	160,000
Capital Appreciation Bond, \$294,992 @ 6.828%-20.854%	294,992	0	0	294,992	0
CAB Accretion, \$2,020,008	0	106,857	0	106,857	0
Premium, \$1,589,927	1,589,927	0	75,511	1,514,416	0
Discount, \$79,106	(79,106)	0	(3,767)	(75,339)	0
Total 2012 Bonds	<u>9,995,813</u>	<u>106,857</u>	<u>326,744</u>	<u>9,775,926</u>	<u>160,000</u>
Total Bonds	<u>10,980,838</u>	<u>106,857</u>	<u>521,749</u>	<u>10,565,946</u>	<u>370,000</u>
Capital Leases	3,409,399	74,453	206,163	3,277,689	209,780
Compensated Absences	719,509	484,800	371,322	832,987	67,644
Total General Long-Term Obligations	<u>\$15,109,746</u>	<u>\$666,110</u>	<u>\$1,099,234</u>	<u>\$14,676,622</u>	<u>\$647,424</u>

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

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outstanding serial and term bonds are being retired from the debt service fund. The premium that remained following the refunding amounted to \$50,025. The fiscal year 2013 amortization of the premium was \$10,050.

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, 2016 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, 2016.

Principal and interest requirements to retire the remaining general obligation bonds for the 2005 School Construction and Improvement bonds outstanding at June 30, 2013 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$210,000	\$31,050	\$241,050
2015	215,000	22,650	237,650
2016	220,000	14,050	234,050
2017	105,000	2,665	107,665
Total	\$750,000	\$70,415	\$820,415

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 refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$1,131,713. This difference, reported in the accompanying financial statements as a deferred outflow of resources – deferred charge on refunding, and amortized over the life of the refunded bonds, through June 1, 2015, using the straight-line method. The amortization of this difference for fiscal year 2013 was \$226,343, leaving a balance of \$905,370. 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.

These refunding bonds were issued with a premium of \$1,589,927, and a discount of \$79,106. The fiscal year 2013 amortization of the premium and discount were \$75,511 and \$3,757, respectively.

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. The accretion recorded for fiscal year 2013 is \$106,857 for a total bond liability of \$401,849. The accretion will continue to be recorded over the life of the bonds.

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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, 2013 are as follows:

Fiscal Year	Serial Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
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	0	231,570	92,800	352,200	92,800	583,770
2019-2023	510,000	1,157,850	202,192	1,667,808	712,192	2,825,658
2024-2028	2,875,000	931,712	0	0	2,875,000	931,712
2029-2033	3,730,000	419,058	0	0	3,730,000	419,058
Totals	\$7,935,000	\$3,700,245	\$294,992	\$2,020,008	\$8,229,992	\$5,720,253

The School District's overall legal debt margin was \$2,708,454, with an unvoted debt margin of \$120,473, at June 30, 2013. Although the School District's overall legal debt margin was \$2,708,454 at June 30, 2013 it was higher at the point of debt issuance due to the revision of the calculation per House Bill 530, which became effective March 30, 2006. The legislation provided for the exclusion of valuations of tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, or personal property owned or leased by a railroad company and used in railroad operations in the legal debt margin calculation. The School District issued the general obligation bonds prior to the revised legislation.

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.

Defeased Debt – As of June 30, 2013, \$8,485,000 of the refunded bonds remains outstanding and are considered defeased, and the escrow account has a balance of \$9,244,714 which will provide for the future debt service of the defeased bonds.

Bond Insurance – On January 17, 2013, Assured Guaranty Corp, the bond insurer for the 2005 School Construction and Improvement General Obligation Bonds, was downgraded by Moody's Investor Services from Aa3 to A2. See Subsequent Event Note 22 for further details. This downgrade came after Moody's had previously downgraded Financial Security Assurance, Inc. (FSA), the original bond insurer for this bond issue, which was acquired by Assured Guaranty Corp. on July 1, 2009, from Aaa to Aa3. On March 26, 2012, a credit opinion was issued by Moody's Investor Services, for Assured Guaranty Corp., at Aa3, which, at the time, represented no change from the previous actions.

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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 and taxing authority. During fiscal year 2013, the School District made no contributions to the Belmont-Harrison 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 exercised total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the Board. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2013, the total amount paid to OME-RESA from the School District was \$719 for cooperative gas purchasing service administrative fees, \$10,426 for technology services and \$30,509 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, 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 implementation of State and regional initiatives and school improvement efforts. 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 Advisory Council exercises total control over the operations of the System including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the Advisory Council. Financial information can be obtained from the Muskingum Valley Educational Service Center, 205 N. Seventh Street, Zanesville, Ohio, 43701.

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Coalition of Rural and Appalachian Schools (CORAS) – The Coalition of Rural and Appalachian Schools is a jointly governed organization including 136 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 Coalition provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Board exercises total control over the operations of the Coalition including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the Board. The School District's membership fee was \$325 for fiscal year 2013.

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, 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 Retrospective Rating Program (GRRP) - The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool. The intent of the GRRP is to achieve the overall benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRRP. The participating School Districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based on the performance of the entire group. Participation in the GRRP is limited to School Districts that can meet the GRRP's selection criteria. The firm of CompManagement, Inc., provides administration, cost control, and actuarial services to the GRRP.

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 Hylant Administrative Services and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Hylant Administrative Service is the sales and marketing representative, which establishes agreements between OSP and member schools.

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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.

	<u>Capital Improvements</u>
Set-aside Restricted Balance as of June 30, 2012	\$0
Current Year Set-aside Requirement	251,122
Current Year Qualifying Expenditures	(102,787)
Current Year "Offsets"	<u>(207,039)</u>
Totals	<u>(\$58,704)</u>
Balance Carried Forward to Fiscal Year 2014	<u>\$0</u>
Set-aside Restricted Balance as of June 30, 2013	<u>\$0</u>

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, 2013.

B. Oil/Gas Leases

XTO Energy, Inc. – The Board of Education has entered into two “Paid-Up” Oil and Gas Leases with *XTO Energy, Inc.* 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. In consideration of the execution of the first lease, the School District received a signing bonus in the amount of \$289,704 during fiscal year 2013. 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. In consideration of the execution of the second lease, the School District received a

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

signing bonus in the amount of \$293,080 during fiscal year 2012. The 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.

Hess Ohio Development LLC – The Board of Education has entered into a “Paid-Up” Oil and Gas Lease with Hess Ohio Development LLC. The lease is for 0.4 acres of property owned by the Martins Ferry Board of Education, and is effective February 12, 2013, for a five year period (See Subsequent Event Note 22 for further details regarding a lease signing bonus). The lease calls for payments to the School District, in addition to the bonus, royalties in the amount of 18.75 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.

Gulfport Energy Corporation – The Board of Education has entered into a “Paid-Up” Oil and Gas Lease with Gulfport Energy Corporation. See Subsequent Event Note 22 for further details.

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 Signing Bonus

On November 1, 2013, the School District received \$2,080 which was the signing bonus for the “Paid Up Oil and Gas Lease” with Hess Ohio Development, LLC, which was effective February 12, 2013, for the 0.4 acres that is owned by the School District. See Contingency Note 21 for further information.

B. Oil/Gas Lease Agreement

On October 18, 2013, the Board of Education entered into its fourth “Paid Up” Oil and Gas Lease. The lease is for 8.818 acres of property owned by the Martins Ferry Board of Education, and is effective for a five year period, from the date of the agreement, with Gulfport Energy Corporation. In consideration of the execution of the fourth lease, the School District is to receive a signing bonus in the amount of \$59,522. As of the date of the Financial Statements, no bonus money has been received by the School District. The fourth lease calls for payments to the School District, in addition to the bonus, royalties in the amount of 18.75 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. Bond Insurance Rating

Bond Insurance 2005 School Construction and Improvement General Obligation Bonds – On November 18, 2013, Moody’s Investor Services issued a Credit Opinion of A3 for Assured Guaranty Corp.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

D. Judgment

On June 21, 2013 the Seventh District of the Ohio Court of Appeals reversed the trial court's decision in the case of Martins Ferry Board of Education v. Ohio Association of Public Employees, et al. The Court of Appeals ruled that the School District owes the classified staff the amount of pay they would have received, had the unilateral five percent salary reductions not went into effect on July 5, 2010, plus interest through the date of reinstatement for contract year 2013. The Board of Education filed an appeal with the Ohio Supreme Court. On November 20, 2013, the Supreme Court announced that it would not review the Court of Appeals' decision. The School District's liability for this judgment will not have a material effect on the financials.

E. Ongoing Contract Negotiations

As of the date of the Financial Statements, the School District is still in contract negotiations with the classified staff represented by the Ohio Association of Public School Employees. The classified staff is 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, 2013**

FEDERAL GRANTOR/ Pass-Through Grantor 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	\$23,173	\$23,173
Cash Assistance:				
School Breakfast Program	044347-05PU-13	10.553	189,947	189,947
National School Lunch Program	044347-LLP4-13	10.555	292,664	292,664
Cash Assistance Sub Total			<u>482,611</u>	<u>482,611</u>
Total U.S. Department of Agriculture/Child Nutrition Cluster			505,784	505,784
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed-Through Ohio Department of Education.</i>				
Title I Grants to Local Educational Agencies	044347-C1S1-12 044347-C1S1-13	84.010	220,928 <u>456,102</u>	 <u>725,282</u>
Total Title I Grants to Local Educational Agencies			677,030	725,282
Special Education, Grants to States (IDEA, Part B)	044347-6BSF-12 044347-6BSF-13	84.027	77,672 <u>319,983</u>	10,824 <u>320,184</u>
Total Special Education, Grants to States (IDEA, Part B)			397,655	331,008
Education Technology State Grants	044347-TJS1-13	84.318	2,974	10
Improving Teacher Quality State Grants	044347-TRS1-12 044347-TRS1-13	84.367	41,313 <u>161,946</u>	 <u>204,830</u>
Total Improving Teacher Quality State Grants			203,259	204,830
ARRA - Race to the Top Fund, Recovery Act	044347-13	84.395	<u>1,400</u>	<u>1,400</u>
Total U.S. Department of Education			<u>1,282,318</u>	<u>1,262,530</u>
Total Federal Awards Receipts and Expenditures			<u>\$1,788,102</u>	<u>\$1,768,314</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, 2013**

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

The Ohio Department of Education permits School District's to transfer up to 50% of funds from certain federal award programs to certain other programs through budget amendments. The School District transferred funds to and from the following programs:

CFDA Number	Transfers-In	Transfers-Out
84.367		\$41,199
84.318	\$41,199	



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States *Government Auditing Standards*, 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, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report dated March 14, 2014, wherein we noted the School District adopted Governmental Accounting Standards Board Statement No.'s 63 and 65.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a significant deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a significant deficiency in internal control. We consider finding 2013-002 to be a significant deficiency.

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, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2013-001.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 14, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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:

Report on Compliance for Each Major Federal Program

We have audited the Martins Ferry City School District, Belmont County, Ohio (the School District), compliance with the applicable 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, 2013. The *Summary of Audit Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

Management's Responsibility

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

Basis for Qualified Opinion on Improving Teacher Quality State Grants

As described in Findings 2013-003 and 2013-004, in the accompanying Schedule of Findings, the School District did not comply with requirements regarding cash management and reporting applicable to its Improving Teacher Quality State Grants major federal program. Compliance with these requirements is necessary, in our opinion, for the School District to comply with the requirements applicable to this program.

Qualified Opinion on Improving Teacher Quality State Grants

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Improving Teacher Quality State Grants* paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Improving Teacher Quality State Grants program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School District complied in all material respects with the requirements referred to above that could directly and materially affect each of its other major federal programs identified in the *Summary of Auditor's Results* section of the accompanying Schedule of Findings for the year ended June 30, 2013.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying Schedule of Findings as item 2013-005. This finding did not require us to modify our compliance opinion on the major federal program.

The School District's responses to our noncompliance findings 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.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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 material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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's applicable 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's 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 2013-003 and 2013-004 to be material weaknesses.

The School District's responses to our internal control over compliance findings 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.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

March 14, 2014

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**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Improving Teacher Quality State Grants – Qualified Unmodified on Each of the Other Major Federal Programs
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster, CFDA #10.553 and 10.555 Title I Grants to Local Educational Agencies, CFDA #84.010 Improving Teacher Quality State Grants, CFDA #84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)

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

FINDING NUMBER 2013-001

Noncompliance Citation

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

The School District did not pass appropriations for the Schoolwide Pool Fund; therefore, expenditures made from this fund in the amount of \$1,900,855 exceeded appropriations by this entire amount.

By failing to pass appropriations but continuing to expend funds, the chance the School District could overspend is significantly increased.

The School District Board should review the current procedures in place regarding budgetary measures. The Board should take the necessary steps to ensure that appropriations are approved for all School District funds and that monthly comparisons are made between budgeted and actual expenditures.

Official's Response: The schoolwide pool was not appropriated/receipted as the Treasurer normally would have done for the other accounts. The schoolwide pool account was acting as a pass through fund only, with no appropriations being set up on the books, as well as no estimated resources. With that being said, the Treasurer shorted the amounts on the accounting system and approved appropriations that would have accounted for the transfers into the schoolwide pool. The Treasurer now sees that she should have made appropriations and estimated resources for the total of the federal programs, as well as the schoolwide pool. This will definitely be corrected going forward.

FINDING NUMBER 2013-002

Significant Deficiency

The School District should establish internal controls to reasonably assure that the budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on remaining uncommitted appropriation balances.

The School District Treasurer did not accurately post appropriation resolution/amendments to the accounting system. Variances existed between the authorized appropriation amounts and the amounts posted to the accounting system as indicated below.

Fund	Amount Per Final Appropriation Resolution	Amount Posted to the Accounting System	Variance
Title 1	\$791,281	\$134,344	(\$656,937)
Total School District Fund Appropriations	15,503,662	16,670,366	1,166,704

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

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

FINDING NUMBER 2013-002 (Continued)

Significant Deficiency (Continued)

We recommend the School District Treasurer post to the accounting system appropriations and any amendments made to them into the accounting system after approved by the School District Board to help ensure effective budgetary monitoring.

Official's Response: See response to Finding 2013-001.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2013-003
CFDA Title and Number	Improving Teacher Quality State Grants, CFDA #84.367
Federal Award Number / Year	044347-TRS1-13
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 form minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantess must be followed whenever advance payment procedures are used.

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 disbursement. 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.

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2013-003 (Continued)

Noncompliance and Material Weakness – Cash Management (Continued)

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 (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 or project funds by June 30. Funds MUST be expended within the period of time for which cash is requested.

Funds requested for the Improving Teacher Quality State Grants program were not spent within the period of time for which the cash was requested in the following month;

<u>Month</u>	<u>Amount Requested</u>	<u>Amount Expended</u>	<u>Amount Not Spent by End of Month</u>
August 2012	\$79,792	\$41,709	\$38,083

The excess of \$38,083 was not fully spent until February 19, 2013.

The School District should take steps to minimize the time elapsing between the receipt and disbursement of grant funds. The School District Treasurer should review the process for requesting federal funds to ensure monies are disbursed within the month of receipt.

Official's Response This deals more with a timing issue and entering into the schoolwide pool. Part of the positive balance in the Title IIA was an advance return from the prior year that wasn't made until later in the year. Plus, we didn't actually start the schoolwide pool until several months into FY13. The Treasurer had already planned to staff a teacher from this program but once we approved utilizing the schoolwide pool, that teacher was transferred to the pool account leaving a positive balance in the Title IIA fund for much longer than originally planned. Once the advance was returned, the balance of the funds in the Title IIA program were allocated to the non-public school and they did not spend their funds until later in the year.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2013-004
CFDA Title and Number	Improving Teacher Quality State Grants, CFDA #84.367
Federal Award Number / Year	044347-TRS1-13,12
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Material Weakness – Reporting

Ohio Department of Education (ODE) Final Expenditure Report Instructions – GM/FER-1, Revised 6/25/04 requires all amounts reported on the Final Expenditure Report (FER) must reconcile to the districts' or agency's accounting system used to prepare annual financial statements.

Due to lack of procedures in place for grant reporting, the School District did not report actual expenditures and cash received in the final expenditure reports for the Improving Teacher Quality State Grants major federal program. The exceptions are summarized below.

<u>Grant Year</u>	<u>Expenditures per FER Adjustments</u>	<u>Expenditures Per Accounting System</u>	<u>Variance</u>
2012	\$118,250	\$115,327	\$2,923
2013	169,849	212,090	(42,241)

<u>Grant Year</u>	<u>Cash Received per FER Adjustments</u>	<u>Cash Received (from ODE) Per Accounting System</u>	<u>Variance</u>
2013	\$169,849	\$173,611	(\$3,762)

The lack of procedures in place to ensure accurate reporting could jeopardize the School District's future federal funding.

The School District should review their current procedures regarding completion of final expenditure reports and take the steps necessary to ensure that reports are completed within the guidelines set forth by the Ohio Department of Education to avoid future suspension or loss of funds.

Official's Response: This included a transfer from IID to IIA as well as an advance at year-end to cover a negative balance. Some confusion occurred due to year-end for the federal grant expenditures being different from fiscal year end. Now realizing that federal funds can have a negative balance at fiscal year-end will alleviate advancing funds to cover those negative balances. Also, tracking the true balances at fiscal year-end and at grant year end should make creating the FER's easier.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2013-005
CFDA Title and Number	Title I Grants to Local Educational Agencies, CFDA #84.010
Federal Award Number / Year	044347-C1S1-13,12
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance – Earmarking

ESEA, Title I, Section 1118, Part A (1), states that a local educational agency may receive funds under this part only if such agency implements programs, activities, and procedures for the involvement of parents in programs assisted under this part consistent with this section. Such programs, activities, and procedures shall be planned and implemented with meaningful consultation with parents of participating children.

School Districts with an allocation of \$500,000 or greater are required to reserve 1% of their allocation to be spent on parent involvement. If this amount is not spent in the year it is allocated for, any remainder should be re-allocated and spent in the succeeding year.

Based on the School District's Title I allocation, they were required to spend \$5,455 on parental involvement. The School District only spent \$3,216 on parental involvement resulting in a shortfall of \$2,239. The School District did not carry this amount forward to the FY 14 Title I grant nor reserve it for parental involvement. As a result, they did not meet this requirement.

We recommend the School District review the current procedures in place regarding earmarking grant funds and take the steps necessary to ensure that required amounts are spent on specific activities.

Official's Response: We were aware of the parental involvement allocation but just could not find a way to utilize those funds. We thought we could use the funds for summer intervention with parental involvement but lack of response stifled that plan. In going forward our curriculum director/federal programs coordinator has devised ways to exhaust those funds within the guidelines specified.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2012-01	Ohio Rev. Code Section 5705.39, appropriations exceeded estimated revenue in several funds.	Yes	N/A.
2012-02	Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations in several funds.	No	Not Corrected; Reissued as Finding 2013-001.
2012-03	Significant Deficiency – variances existed in estimated resources and appropriations and the amounts posted to the accounting system.	No	Not Corrected; Reissued as Finding 2013-002.
2012-04	Significant Deficiency – Not always indicating “Okay To Pay” on invoices prior to making payment to vendor.	Yes	N/A.
2012-05	7 C.F.R. Section 245.6 (c) (4), did not always adhere to income eligibility guidelines for Nutrition Cluster.	No	Partially Corrected; Reissued in Management Letter.
2012-06	34 C.F.R. 80.20 (b)(7), did not always minimize time lapsing between the transfer of funds from U.S. treasury and disbursement by the grantee in the Education Jobs Fund Grant.	No	Not Corrected; Reissued as Finding 2013-003.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315(c)
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-003	The corrective plan is not to submit a project cash request (PCR) until after month end and actually have a negative balance. I will request only my negative balance and an encumbrance that I am sure will be expended prior to the end of the subsequent month. Also, the federal programs coordinator will keep in touch with the non-public school ensuring they utilize those funds for acceptable expenditures in a timely manner, which is critical to the release of the funds for the schoolwide pool program since PCR's are not released if the associated federal programs are not exhausting their prorated amounts accordingly.	June 30, 2014	Karen Blake, Treasurer
2013-004	The corrective plan is to monitor the expenditures and receipts of the federal programs more closely. I also plan on exhausting those funds prior to fiscal year end whenever possible so that overlapping of fiscal years will not cause further undue confusion. With the special cost centers being unique for each federal program year, monitoring expenditures costed out correctly in two different program years should be easier to track and monitor.	June 30, 2014	Karen Blake, Treasurer
2013-005	The corrective plan is already in place with the curriculum director/federal programs coordinator. Through research and principal input she has become more aware of ways to utilize those dollars for parental involvement and we will work together to make sure those funds are exhausted. Working together and sharing information should resolve this issue.	June 30, 2014	Karen Blake, Treasurer



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Martins Ferry City School District, Belmont County, Ohio, has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 11, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

Columbus, Ohio

March 14, 2014

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MARTINS FERRY CITY SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2014**