



Mary Taylor, CPA
Auditor of State

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

January 11, 2008

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
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, 2007. 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 2007 are as follows:

- In total, net assets increased \$868,872.
- General revenues accounted for \$11,695,594 in revenue or 72 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$4,590,918 or 28 percent of total revenues of \$16,286,512.
- Total assets of governmental activities increased \$4,217,151 primarily due to an increase in construction in progress capital assets that were recorded for the classroom facilities project as well as for donated assets associated with the stadium turf project that was completed and placed in service during fiscal year 2007.
- The School District had \$15,417,640 in expenses related to governmental activities; only \$4,590,918 of these expenses were offset by program specific charges for services and sales, grants, and contributions. General revenues of \$11,695,594 were adequate to provide for these programs.
- The School District's major funds are the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$11,028,494 in revenues and \$12,178,845 in expenditures, and the fund balance, including inception of capital lease decreased \$200,351. The Classroom Facilities Fund had \$18,709,611 in revenues and \$22,815,458 in expenditures, and the fund balance decreased \$4,105,847.

Using this Annual Financial Report

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

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Project Fund.

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for individuals, private organizations, other government units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. This activity is 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 Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1
Net Assets

	Governmental Activities		
	2007	2006	Net Change
Assets			
Current and Other Assets	\$21,254,922	\$41,743,318	(\$20,488,396)
Capital Assets	32,471,548	7,766,001	24,705,547
Total Assets	<u>53,726,470</u>	<u>49,509,319</u>	<u>4,217,151</u>
Liabilities			
Long-Term Liabilities	13,427,675	12,535,408	892,267
Other Liabilities	7,492,851	5,036,839	2,456,012
Total Liabilities	<u>20,920,526</u>	<u>17,572,247</u>	<u>3,348,279</u>
Net Assets			
Invested in Capital Assets, Net of Debt	29,082,230	5,887,843	23,194,387
Restricted	3,675,113	25,531,004	(21,855,891)
Unrestricted	48,601	518,225	(469,624)
Total Net Assets	<u>\$32,805,944</u>	<u>\$31,937,072</u>	<u>\$868,872</u>

Total assets increased \$4,217,151. Current assets decreased by \$20,488,396 which is due primarily to decreases in cash and investments and intergovernmental receivables related to the classroom facilities project as work is being completed. Capital assets increased \$24,705,547 due primarily to construction in progress that was recorded for the classroom facilities project as well as for donated assets associated with the stadium turf project that was completed and placed in service during fiscal year 2007.

Total liabilities increased \$3,348,279. The increase is due primarily to the increase in contracts and retainage payable for the building project as well as inception of the capital lease for the bus garage and additional property adjacent to the new facilities which is offset by debt repayments made on the capital lease for the stadium project and the general obligation bonds that were issued for the local share of the classroom facilities project.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

Table 2
Changes in Net Assets

	Governmental Activities		
	2007	2006	Net Change
Revenues			
<i>Program Revenue</i>			
Charges for Services and Sales	\$1,001,602	\$880,513	\$121,089
Operating Grants and Contributions	3,084,855	3,099,636	(14,781)
Capital Grants and Contributions	504,461	6,222	498,239
<i>Total Program Revenue</i>	<u>4,590,918</u>	<u>3,986,371</u>	<u>604,547</u>
<i>General Revenue</i>			
Property Taxes	3,634,494	3,379,820	254,674
Grants and Entitlements	6,996,003	6,654,412	341,591
Investment Earnings	1,052,321	568,098	484,223
Other	12,776	49,006	(36,230)
<i>Total General Revenue</i>	<u>11,695,594</u>	<u>10,651,336</u>	<u>1,044,258</u>
Total Revenues	<u>16,286,512</u>	<u>14,637,707</u>	<u>1,648,805</u>
Program Expenses			
Instruction:			
Regular	6,277,269	5,736,074	541,195
Special	1,915,996	1,756,036	159,960
Vocational	314,265	240,427	73,838
Support Services:			
Pupil	568,315	529,566	38,749
Instructional Staff	874,927	713,185	161,742
Board of Education	75,347	72,002	3,345
Administration	1,135,317	1,045,753	89,564
Fiscal	334,470	319,045	15,425
Operation and Maintenance of Plant	1,194,614	1,113,009	81,605
Pupil Transportation	582,997	433,423	149,574
Central	89,440	27,302	62,138
Operation of Non-Instructional Services	113,710	114,709	(999)
Food Service Operations	543,657	452,784	90,873
Extracurricular Activities	336,439	313,900	22,539
Intergovernmental	499,048	413,779	85,269
Interest and Fiscal Charges	561,829	518,852	42,977
Total Expenses	<u>15,417,640</u>	<u>13,799,846</u>	<u>1,617,794</u>
<i>Change in Net Assets</i>	868,872	837,861	31,011
Net Assets Beginning of Year	<u>31,937,072</u>	<u>31,099,211</u>	837,861
Net Assets End of Year	<u>\$32,805,944</u>	<u>\$31,937,072</u>	<u>\$868,872</u>

In 2007, the School District reported an increase in capital grants and contributions due primarily from the donated assets for the turf project at the stadium from the Student Athletic Growth Fund. Investment earnings increased significantly during fiscal year 2007 due to the building project dollars being invested.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Instructional programs comprise approximately 55 percent of total governmental program expenses. Of the instructional expenses, approximately 74 percent is for regular instruction, 23 percent for special instruction, and 3 percent for vocational instruction. Total expenses for the School District increased \$1,617,794 due primarily to increased costs for salaries and benefits, as well as increased special education programs and additional staff. During fiscal year 2007, the District had \$499,048 in intergovernmental expenditures for infrastructure related to the school facilities project that will be donated to the City of Martins Ferry for future maintenance upon completion of the project.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2007 compared to fiscal year 2006. 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	
	2007	2006	2007	2006
Instruction:				
Regular	\$6,277,269	\$5,736,074	\$4,865,774	\$4,430,246
Special	1,915,996	1,756,036	681,515	470,444
Vocational	314,265	240,427	218,540	140,987
Support Services				
Pupil	568,315	529,566	556,040	491,463
Instructional Staff	874,927	713,185	398,314	298,163
Board of Education	75,347	72,002	75,347	72,002
Administration	1,135,317	1,045,753	1,073,173	977,215
Fiscal	334,470	319,045	334,470	319,045
Operation and Maintenance of Plant	1,194,614	1,113,009	1,194,614	1,113,009
Pupil Transportation	582,997	433,423	567,581	427,201
Central	89,440	27,302	63,663	6,786
Operation of Non-Instructional Services	113,710	114,709	(8,380)	(17,501)
Food Service Operations	543,657	452,784	25,663	(67,486)
Extracurricular Activities	336,439	313,900	(280,469)	219,270
Intergovernmental	499,048	413,779	499,048	413,779
Interest and Fiscal Charges	561,829	518,852	561,829	518,852
Total Expenses	<u>\$15,417,640</u>	<u>\$13,799,846</u>	<u>\$10,826,722</u>	<u>\$9,813,475</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 70 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, 2007
Unaudited

The School District Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$33,538,767 and expenditures of \$39,675,200. The net change in fund balance for the year for all governmental funds, including other financing sources and uses was a decrease of \$5,186,433. Of the overall decrease, \$4,105,847 was in the Classroom Facilities Fund where the construction project is being accounted for.

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 2007 the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts. There were no significant changes between the original and the final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007 the School District had \$32,471,548 invested in land, land improvements, buildings and improvements, construction in progress, furniture and equipment, and vehicles. See Note 9 for more detailed information of the School District's capital assets.

Debt

At June 30, 2007, the School District has \$10,571,725 in outstanding general obligation bonds that were issued for the local share of the classroom facilities project, as well as \$1,935,105 in outstanding capital leases related to the stadium construction project and the purchase of the bus garage and land associated with the building project. See Note 16 for more detailed information related to the School District's debt.

Economic Factors

The School District ended fiscal year 2007 with a positive balance, however based on the most recent Board adopted forecast, fiscal year 2008 is projected to have a large deficit. Early projections show an operating deficit of \$500,000 for the end of June 2008.

The School District added several new positions during fiscal year 2007. The School District, building on previous years, expanded the School District's Special Education Program. The School District added a School Psychologist, where as in prior years had contracted out for Psychological Services. The School District added a new Developmentally Handicapped teacher at North Elementary School. The School District hired several educational aides during the year to help with the Special Education program as well as in the elementary classrooms.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The outlook for the School District is a bright one, as completion of a major school building project looms on the horizon. The School District passed a 5.59 mill 28 years Construction Bond Levy on November 4, 2004. The Construction Bond Levy will generate Ten Million Five Hundred Twenty Thousand Dollars (\$10,520,000). This levy allowed for the School District to participate in the Ohio School Facilities Commission (OFSC) Classroom Facilities Assistance Program. The OFSC share of this project is Twenty Eight Million Five Hundred Sixty Four Thousand Seven Hundred Fifty Four Dollars (\$28,564,750). Upon completion, this project will allow the School District to close 5 current school buildings and house all students in two new buildings. The date of completion of the building project was December 2007.

The School District entered into a lease purchase agreement with Ayers Limestone Quarry to purchase additional land, a bus garage and a transportation department office. This agreement took place in September 2006, and is for 30 years at a price of \$950,000, with an interest rate of 4 percent.

The School District has numerous Locally Funded Initiatives (LFI) construction projects on-going during the year. The School District's new administration building was completed in August, 2007. During the month of June, the transportation department moved into the new bus garage facility.

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 Albert Skulich, Treasurer/CFO at Martins Ferry City School District, 5001 Ayers Limestone Road, Martins Ferry, Ohio 43935.

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Martins Ferry City School District
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$10,449,894
Materials and Supplies Inventory	10,891
Prepaid Items	11,487
Accrued Interest Receivable	38,068
Investments	5,297,457
Intergovernmental Receivable	1,056,713
Property Taxes Receivable	3,885,939
Cash and Cash Equivalents with Escrow Agents	343,120
Deferred Charges	161,353
Non-Depreciable Capital Assets	28,736,592
Depreciable Capital Assets, Net	<u>3,734,956</u>
 Total Assets	 <u>53,726,470</u>
Liabilities	
Accounts Payable	19,413
Contracts Payable	1,947,801
Accrued Wages and Benefits Payable	1,330,726
Intergovernmental Payable	306,135
Accrued Interest Payable	40,155
Vacation Benefits Payable	68,491
Matured Severance Payable	46,417
Deferred Revenue	3,066,619
Retainage Payable	654,114
Retirement Incentive Payable	12,980
Long-Term Liabilities:	
Due Within One Year	254,037
Due In More Than One Year	<u>13,173,638</u>
 Total Liabilities	 <u>20,920,526</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	29,082,230
Restricted for:	
Debt Service	281,836
Capital Projects	3,044,892
Food Service	50,558
Classroom Facilities Maintenance	177,181
State Programs	63,693
Federal Programs	33,491
Other Purposes	23,462
Unrestricted	<u>48,601</u>
 Total Net Assets	 <u><u>\$32,805,944</u></u>

See accompanying notes to the basic financial statements.

Martins Ferry City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$6,277,269	\$706,548	\$704,947	\$0	(\$4,865,774)
Special	1,915,996	0	1,234,481	0	(681,515)
Vocational	314,265	0	95,725	0	(218,540)
Support Services:					
Pupil	568,315	0	12,275	0	(556,040)
Instructional Staff	874,927	0	476,613	0	(398,314)
Board of Education	75,347	0	0	0	(75,347)
Administration	1,135,317	0	62,144	0	(1,073,173)
Fiscal	334,470	0	0	0	(334,470)
Operation and Maintenance of Plant	1,194,614	0	0	0	(1,194,614)
Pupil Transportation	582,997	0	0	15,416	(567,581)
Central	89,440	0	25,777	0	(63,663)
Operation of Non-Instructional Service	113,710	0	122,090	0	8,380
Food Service Operations	543,657	167,191	350,803	0	(25,663)
Extracurricular Activities	336,439	127,863	0	489,045	280,469
Intergovernmental	499,048	0	0	0	(499,048)
Interest and Fiscal Charges	561,829	0	0	0	(561,829)
<i>Total Governmental Activities</i>	<u>\$15,417,640</u>	<u>\$1,001,602</u>	<u>\$3,084,855</u>	<u>\$504,461</u>	<u>(10,826,722)</u>

General Revenues

Property Taxes Levied for General Purposes	2,816,461
Property Taxes Levied for Capital Outlay	112,300
Property Taxes Levied for Debt Service	646,807
Property Taxes Levied for Building Maintenance	58,926
Grants and Entitlements not Restricted to Specific Programs	6,996,003
Gifts and Donations	11,401
Investment Earnings	1,052,321
Miscellaneous	1,375
<i>Total General Revenues</i>	<u>11,695,594</u>
Change in Net Assets	868,872
<i>Net Assets Beginning of Year</i>	<u>31,937,072</u>
<i>Net Assets End of Year</i>	<u><u>\$32,805,944</u></u>

See accompanying notes to the basic financial statements.

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,908,099	\$7,144,219	\$1,086,582	\$10,138,900
Investments	0	5,297,457	0	5,297,457
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	0	283,197	27,797	310,994
Cash and Cash Equivalents with Escrow Agents	0	343,120	0	343,120
Receivables:				
Property Taxes	2,993,743	0	892,196	3,885,939
Intergovernmental	0	776,199	280,514	1,056,713
Accrued Interest	0	38,068	0	38,068
Prepaid Items	11,487	0	0	11,487
Materials and Supplies Inventory	800	0	10,091	10,891
<i>Total Assets</i>	<u>\$4,914,129</u>	<u>\$13,882,260</u>	<u>\$2,297,180</u>	<u>\$21,093,569</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$14,430	\$0	\$4,983	\$19,413
Contracts Payable	0	1,620,027	327,774	1,947,801
Accrued Wages and Benefits	1,072,661	0	258,065	1,330,726
Intergovernmental Payable	243,944	0	62,191	306,135
Matured Severance Payable	38,982	0	7,435	46,417
Retirement Incentive Payable	12,980	0	0	12,980
Retainage Payable	0	626,317	27,797	654,114
Deferred Revenue	2,669,912	652,738	797,783	4,120,433
<i>Total Liabilities</i>	<u>4,052,909</u>	<u>2,899,082</u>	<u>1,486,028</u>	<u>8,438,019</u>
Fund Balances				
Reserved for Encumbrances	46,143	8,453,759	385,830	8,885,732
Reserved for Property Taxes	323,831	0	94,413	418,244
Unreserved, Undesignated, Reported in:				
General Fund	491,246	0	0	491,246
Special Revenue Funds	0	0	171,671	171,671
Debt Service Fund	0	0	495,981	495,981
Capital Projects Funds	0	2,529,419	(336,743)	2,192,676
<i>Total Fund Balances</i>	<u>861,220</u>	<u>10,983,178</u>	<u>811,152</u>	<u>12,655,550</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$4,914,129</u>	<u>\$13,882,260</u>	<u>\$2,297,180</u>	<u>\$21,093,569</u>

See accompanying notes to the basic financial statements.

Martins Ferry City School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007*

Total Governmental Fund Balances \$12,655,550

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

Capital assets used in governmental activities are not financial
resources and therefore are deferred in the funds. 32,471,548

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

Grants	652,738	
Property Taxes	401,076	
Total		1,053,814

Unamortized issuance costs represent deferred charges which
do not provide current financial resources and, therefore, are
not reported in the funds. 161,353

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

General Obligation Bonds	10,245,000	
Bond Premium	326,725	
Compensated Absences	920,845	
Vacation Benefits Payable	68,491	
Accrued Interest Payable	40,155	
Capital Leases	1,935,105	
Total		(13,536,321)

Net Assets of Governmental Activities \$32,805,944

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, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,790,326	\$0	\$815,603	\$3,605,929
Intergovernmental	7,353,111	17,799,785	2,646,124	27,799,020
Interest	178,448	909,826	31,166	1,119,440
Tuition and Fees	684,001	0	0	684,001
Extracurricular Activities	0	0	127,863	127,863
Contributions and Donations	0	0	11,401	11,401
Charges for Services	22,547	0	167,191	189,738
Miscellaneous	61	0	1,314	1,375
<i>Total Revenues</i>	<u>11,028,494</u>	<u>18,709,611</u>	<u>3,800,662</u>	<u>33,538,767</u>
Expenditures				
Current:				
Instruction:				
Regular	5,286,667	0	745,504	6,032,171
Special	1,209,528	0	673,229	1,882,757
Vocational	286,411	0	3,686	290,097
Support Services:				
Pupil	544,386	0	12,702	557,088
Instructional Staff	362,498	0	502,415	864,913
Board of Education	75,078	0	0	75,078
Administration	1,048,052	0	66,374	1,114,426
Fiscal	294,511	12,980	23,163	330,654
Operation and Maintenance of Plant	1,154,438	0	27,564	1,182,002
Pupil Transportation	588,317	0	0	588,317
Central	58,060	0	23,531	81,591
Operation of Non-Instructional Services	0	0	113,710	113,710
Food Service Operations	0	0	520,316	520,316
Extracurricular Activities	202,320	0	122,427	324,747
Capital Outlay	988,592	22,802,478	652,736	24,443,806
Intergovernmental	0	0	499,048	499,048
Debt Service:				
Principal Retirement	25,182	0	180,713	205,895
Interest and Fiscal Charges	54,805	0	513,779	568,584
<i>Total Expenditures</i>	<u>12,178,845</u>	<u>22,815,458</u>	<u>4,680,897</u>	<u>39,675,200</u>
<i>Excess of Revenues Under Expenditures</i>	(1,150,351)	(4,105,847)	(880,235)	(6,136,433)
Other Financing Sources (Uses)				
Transfers In	0	0	100,000	100,000
Inception of Capital Lease	950,000	0	0	950,000
Transfers Out	0	0	(100,000)	(100,000)
<i>Total Other Financing Sources (Uses)</i>	<u>950,000</u>	<u>0</u>	<u>0</u>	<u>950,000</u>
<i>Net Change in Fund Balances</i>	(200,351)	(4,105,847)	(880,235)	(5,186,433)
<i>Fund Balances Beginning of Year</i>	<u>1,061,571</u>	<u>15,089,025</u>	<u>1,691,387</u>	<u>17,841,983</u>
<i>Fund Balances End of Year</i>	<u>\$861,220</u>	<u>\$10,983,178</u>	<u>\$811,152</u>	<u>\$12,655,550</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, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$5,186,433)

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

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

Fixed Assets Additions	24,516,364	
Depreciation	(299,862)	
Total	24,216,502	24,216,502

Capital Assets donated to the District which did not result in capital outlay in the Governmental Funds. 489,045

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

Property Taxes	28,565	
Grants	(17,702,746)	
Interest	(67,119)	
Total	(17,741,300)	(17,741,300)

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

General Obligation Bonds	135,000	
Capital Leases	70,895	
Total	205,895	205,895

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

Accrued Interest	333	
Premium	12,688	
Total	13,021	13,021

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. (950,000)

Issuance costs are reported as an expenditure when paid in governmental funds, but are amortized on the statement of activities. (6,266)

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	(10,742)	
Compensated Absences	(160,850)	
Total	(171,592)	(171,592)

Change in Net Assets of Governmental Activities \$868,872

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, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,360,000	\$2,360,000	\$2,678,602	\$318,602
Intergovernmental	7,873,000	7,873,000	7,353,111	(519,889)
Interest	100,000	100,000	198,079	98,079
Tuition and Fees	649,000	649,000	684,001	35,001
Charges for Services	13,000	13,000	22,547	9,547
Miscellaneous	1,000	1,000	50	(950)
<i>Total Revenues</i>	<u>10,996,000</u>	<u>10,996,000</u>	<u>10,936,390</u>	<u>(59,610)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,299,900	5,191,800	5,157,852	33,948
Special	1,211,800	1,195,400	1,167,633	27,767
Vocational	267,300	286,400	283,395	3,005
Support Services:				
Pupil	483,200	525,800	521,753	4,047
Instructional Staff	355,800	360,500	335,544	24,956
Board of Education	81,200	81,500	74,787	6,713
Administration	1,043,600	1,027,500	1,006,128	21,372
Fiscal	287,000	289,600	285,113	4,487
Operation and Maintenance of Plant	1,121,900	1,179,700	1,170,736	8,964
Pupil Transportation	533,700	574,800	554,044	20,756
Central	59,600	59,600	51,174	8,426
Extracurricular Activities	218,000	224,500	198,475	26,025
Capital Outlay	98,000	120,900	94,638	26,262
<i>Total Expenditures</i>	<u>11,061,000</u>	<u>11,118,000</u>	<u>10,901,272</u>	<u>216,728</u>
Excess of Revenues Over (Under) Expenditures	<u>(65,000)</u>	<u>(122,000)</u>	<u>35,118</u>	<u>157,118</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	1,000	1,000	0	(1,000)
Advances In	5,000	5,000	5,000	0
Advances Out	(10,000)	(8,000)	0	8,000
Total Other Financing Sources (Uses)	<u>(4,000)</u>	<u>(2,000)</u>	<u>5,000</u>	<u>7,000</u>
<i>Net Change in Fund Balance</i>	<u>(69,000)</u>	<u>(124,000)</u>	<u>40,118</u>	<u>164,118</u>
<i>Fund Balance Beginning of Year</i>	1,809,182	1,809,182	1,809,182	0
Prior Year Encumbrances Appropriated	11,686	11,686	11,686	0
<i>Fund Balance End of Year</i>	<u>\$1,751,868</u>	<u>\$1,696,868</u>	<u>\$1,860,986</u>	<u>\$164,118</u>

See accompanying notes to the basic financial statements.

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$13,055</u>
<i>Total Assets</i>	<u><u>\$13,055</u></u>
Liabilities	
Due to Students	<u>\$13,055</u>
<i>Total Liabilities</i>	<u><u>\$13,055</u></u>

See accompanying notes to the basic financial statements.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 72 non-certified employees, 111 certified full-time teaching personnel and 8 administrative employees, who provide services to 1,581 students and other community members. The School District currently operates 6 instructional/support buildings.

Reporting Entity:

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

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

The following activities are included within the reporting entity:

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

The School District is involved with four jointly governed organizations, one related organization, and two insurance purchasing pools. These organizations are the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Ohio Educational Resource Center (ECO-SERRC), the Coalition of Rural and Appalachian Schools (CORAS), the Martins Ferry Public Library, the Ohio Association of School Business Officials Workers’ Compensation Group Rating Program (GRP) and the Ohio School Plan which 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, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities 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, 2007

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Classroom Facilities Fund The Classroom Facilities Capital Projects Fund is used to account for the local and state share of a school facilities project through the Ohio School Facilities Commission. The local share of the project is funded through a bond levy.

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and Money Market Mutual Funds. Investments are reported at fair value. Fair value is based on quoted market price or current share price.

Following Ohio statues, the Board of Education has, by resolution, specified the fund to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$178,448, which includes \$34,732 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The School District reports the change in fair value of investments. The calculation of realized gains/losses is independent of the calculation of the change in the fair value of investments. The realized gains/losses of the current period include unrealized amounts from prior periods.

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 classroom facilities major fund and the locally fund initiatives special revenue non-major governmental fund are for amounts withheld on construction contracts until the successful completion of the contract.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District currently only capitalizes land, land improvements, buildings and improvements, construction in progress, furniture and equipment and vehicles. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Description	Estimated Lives
Land	N/A
Construction in Progress	N/A
Land Improvements	5-40 Years
Buildings and Improvements	20-50 Years
Furniture and Equipment	5-20 Years
Vehicles	5-10 Years

J. Interfund Balances

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

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

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

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

L. Accrued Liabilities and Long-term Obligations

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

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

M. Bond Premiums and Issuance Costs

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Bond premiums are presented as an addition to the face amount of the bonds.

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

N. Interfund Activity

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

O. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include local resources restricted to expenditures for specific purposes. The government-wide statement of net assets reports \$3,675,113 of restricted net assets, of which none have resulted from enabling legislation.

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

S. Budgetary Data

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

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Inception of Capital Lease is a non-cash transaction which is reported on the GAAP operating statement, and not on the budgetary basis statements.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

Net Change in Fund Balance	
GAAP Basis	(\$200,351)
Revenue Accruals	(92,104)
Inception of Capital Lease	(950,000)
Advances In	5,000
Expenditure Accruals	374,686
Inception of Capital Lease	950,000
Encumbrances	<u>(47,113)</u>
Budget Basis	<u><u>\$40,118</u></u>

NOTE 4 - COMPLIANCE

At June 30, 2007, the following funds reflected budgetary expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Lunchroom	\$495,000	\$574,350	\$(79,350)
Miscellaneous State Grants	\$253,715	\$274,636	\$(20,921)
School Construction - LFI	\$900,000	\$1,375,222	\$(475,222)
Classroom Facilities	\$21,692,000	\$31,573,704	\$(9,881,704)

This was caused primarily by not adequately budgeting for transfers-out and year-end encumbrances. The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 5 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 (STAROhio);
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, \$10,417,884 of the School District's bank balance of \$10,617,884 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Investments

As of June 30, 2007, the School District had the following investments:

	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Money Market Mutual Funds	\$31,752	N/A	0.60%	AAAm	S&P
Federal Home Loan Bank - Notes	499,844	7/30/07		AAA	S&P
Federal Home Loan Bank - Notes	999,688	9/4/07		AAA	S&P
Federal Home Loan Bank - Notes	274,828	12/3/07		AAA	S&P
Federal Home Loan Bank - Notes	499,375	4/23/08		AAA	S&P
Federal Home Loan Bank - Notes	249,766	5/15/08	47.35%	AAA	S&P
Federal Home Loan Mortgage Corporation - Notes	459,402	7/11/07		AAA	S&P
Federal Home Loan Mortgage Corporation - Notes	593,100	9/21/07		AAA	S&P
Federal Home Loan Mortgage Corporation - Notes	635,180	12/11/07	31.67%	AAA	S&P
Federal National Mortgage Association - Notes	499,688	10/30/07		AAA	S&P
Federal National Mortgage Association - Notes	<u>586,587</u>	<u>5/30/08</u>	<u>20.38%</u>	AAA	S&P
Totals	<u><u>\$5,329,210</u></u>		<u><u>100.00%</u></u>		

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

Credit Risk. Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investments are uninsured, unregistered investments that are held by the counterparty's trust department or agent in the government's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007, was \$323,831 in the General Fund, \$74,765 in the Debt Service Fund, and \$19,648 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2006, was \$212,107 in the General Fund, \$49,089 in the Debt Service Fund, and \$13,768 in the Permanent Improvement Fund.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$92,565,360	79.7%	\$103,549,990	82.9%
Public Utility Personal	6,349,390	5.4%	6,335,210	5.1%
General Business Property	17,261,331	14.9%	15,010,040	12.0%
	<u>\$116,176,081</u>	<u>100.0%</u>	<u>\$124,895,240</u>	<u>100.0%</u>
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007, consisted of property taxes, accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$401,076 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>
Federal Breakfast/Lunch Program	\$42,029
CORE Implementation	46,480
Title I	108,068
Titel II-A	16,000
Part B - IDEA	67,937
Ohio School Facilities	776,199
Total Intergovernmental Receivables	<u>\$1,056,713</u>

NOTE 8 – INTERNAL BALANCES

During fiscal year 2007, the Food Service Special Revenue Fund transferred \$100,000 to the Local Funded Initiatives Fund; both funds are Nonmajor Governmental Funds. The transfer was to move resources from the food service fund to be used as part of the building project local fund initiatives.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Deletions	Balance 6/30/07
Nondepreciable Capital Assets:				
Land	\$14,582	\$550,000	\$0	\$564,582
Construction in Progress	4,742,699	23,429,311	0	28,172,010
Total Nondepreciable Capital Assets	4,757,281	23,979,311	0	28,736,592
Depreciable Capital Assets:				
Land Improvements	243,414	489,045	0	732,459
Buildings and Improvements	3,713,893	400,000	0	4,113,893
Furniture and Equipment	1,821,827	53,043	0	1,874,870
Vehicles	762,529	84,010	0	846,539
Total Depreciable Capital Assets	6,541,663	1,026,098	0	7,567,761
Accumulated Depreciation:				
Land Improvements	(190,236)	(5,149)	0	(195,385)
Buildings and Improvements	(1,537,175)	(70,345)	0	(1,607,520)
Furniture and Equipment	(1,250,646)	(176,615)	0	(1,427,261)
Vehicles	(554,886)	(47,753)	0	(602,639)
Total Accumulated Depreciation	(3,532,943)	(299,862)	0	(3,832,805)
Total Depreciable Capital Assets, Net	3,008,720	726,236	0	3,734,956
Governmental Capital Assets, Net	\$7,766,001	\$24,705,547	\$0	\$32,471,548

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$181,622
Special	10,525
Vocational	18,112
Support Services:	
Pupil	1,362
Instructional Staff	4,538
Administration	6,353
Fiscal	908
Operation and Maintenance of Plant	10,251
Pupil Transportation	41,770
Food Service Operations	18,492
Extracurricular Activities	5,929
Total Depreciation Expense	\$299,862

During fiscal year 2007, the District had \$499,048 in intergovernmental expenditures for infrastructure related to the school facilities project that will be donated to the City of Martins Ferry for future maintenance upon completion of the project.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10- RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007 the School District contracted with the Selective Insurance Company of South Carolina, Westfield Insurance Company and Cincinnati Insurance for property and fleet insurance and inland marine coverage. Coverage's provided are as follows:

Building and Contents-replacement cost (\$500 deductible)	\$29,278,057
Boiler and Machinery - (\$500 deductible)	100,000
Flood Insurance - Building and Contents (\$5,000 deductible)	212,200
Automotive Liability	2,000,000
Uninsured Motorists	1,000,000

During fiscal year 2007, 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 School District pays this annual premium amount to the OSP (See Note 19). The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurance	\$1,000,000
Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	1,000,000
Personal and Advertising Injury Limit - Each Occurance	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurance	1,000,000
Aggregate Limit	3,000,000
Employers Liability:	
Each Occurance	1,000,000
Disease - Each Employee	1,000,000
Violence:	
Each Occurance	1,000,000
Aggregate Limit	1,000,000

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

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc., provides administration, cost control, and actuarial services to the GRP.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or calling (614) 222-5553.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$171,181, \$157,132, and \$161,418, respectively; 49.58 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005.

B. State Teachers Retirement System

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$826,852, \$779,368, and \$731,864, respectively; 74.75 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were zero made by the School District and \$2,900 made by the plan members.

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, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$57,428 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$77,403.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants receiving health care benefits.

NOTE 13 - 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 46 days for all employees.

B. Health/Life Insurance

The School District provides medical, health, and prescription card coverage for all eligible employees through the Health Plan and Health Assurance. The Health Plan is at a monthly premium rate of \$1,207.51 for a family plan and \$483.02 for a single plan. The Health Assurance is at a monthly premium rate of \$1,316.04 for a family plan and \$526.31 for a single plan. The Board pays 95 percent of the premiums for either of these health insurance options for all employees who work a 35 to 40 hour week. Employees who work less than a 35 hour work week the Board's share of the premium is on a declining scale. The School District also provides dental and life insurance and accidental death and dismemberment insurance to all employees through Coresource at 100 percent Board paid. Life insurance is provided in the amount of \$40,000 for the treasurer, \$25,000 for certified and administrative employees and \$20,000 for the classified employees. Dental is at a premium of \$55.90 for either the family or single plan. Vision insurance is provided through Vision Benefits of America and the Board pays 100 percent of this premium for those on the single plan only.

**Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

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 District 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 \$12,980 outstanding in retirement incentives payable.

NOTE 14 - 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 lessor. During fiscal year 2007, the School District entered into a capital lease to finance the purchase of a bus garage and property adjacent to the new schools.

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

The assets acquired by the leases have been capitalized in government wide statements governmental activities as land and buildings and improvements in the amount of \$2,294,182, 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, \$2,229,321. Principal payments in fiscal year 2007 totaled \$70,895 in the governmental funds.

Future minimum lease payments through 2037 are as follows:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total</u>
2008	\$76,239	\$81,299	\$157,538
2009	80,001	77,986	157,987
2010	82,734	74,511	157,245
2011	85,497	70,918	156,415
2012	89,292	67,206	156,498
2013-2017	511,553	274,031	785,584
2018-2022	421,869	157,548	579,417
2023-2027	170,780	101,347	272,127
2028-2032	208,521	63,606	272,127
2033-2037	208,619	18,209	226,828
Total	<u>\$1,935,105</u>	<u>\$986,661</u>	<u>\$2,921,766</u>

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 15 – CONSTRUCTION COMMITMENT

As of June 30, 2007, the School District had contractual purchase commitments for the school facilities project. The amounts are as follows:

Contractor	Fund	Purchased Commitments	Amounts Paid as of June 30, 2007	Amounts Remaining on Contracts
<u>CAPITALIZED CONTRACTS:</u>				
<u>High School/Middle School:</u>				
Colianni Construction - General Trades	OSFC (010)	\$9,315,446	\$7,521,427	\$1,794,019
RF Scurlock Excavating - Excavating	OSFC (010)	2,988,386	2,450,704	537,682
Cattrell Companies, Inc. - HVAC	OSFC (010)	4,465,000	3,278,397	1,186,603
Erb Electric - Electrical	OSFC (010)	2,624,573	1,720,638	903,935
W.G. Tomko - Plumbing	OSFC (010)	936,236	806,676	129,560
Dalmation Fire, Inc. - Fire Protection	OSFC (010)	294,000	230,473	63,527
Mid-Atlantic Storage - Utilities	OSFC (010)	314,763	311,057	3,706
Commercial Appliance - Food Svc Equip.	OSFC (010)	273,843	241,052	32,791
Farnham Equipment - Furnishings	OSFC (010)	563,700	0	563,700
Flag Floors - Flooring	OSFC (010)	314,000	148,281	165,719
RAME - Roofing	OSFC (010)	541,800	457,043	84,757
<u>Elementary School:</u>				
Colianni Construction - General Trades	OSFC (010)	4,112,064	3,421,340	690,724
Saup/Hartley - Roofing	OSFC (010)	302,810	186,599	116,211
DeGol - Flooring	OSFC (010)	199,600	0	199,600
Farnham Equipment - Furnishings	OSFC (010)	274,800	0	274,800
BrySCO Foodservice - Food Svc Equip.	OSFC (010)	194,746	120,467	74,279
S.A. Comunale Co. - Fire Protection	OSFC (010)	144,620	115,154	29,466
Peterman Plumbing & Heating	OSFC (010)	548,095	455,849	92,246
Davidson Electric	OSFC (010)	882,000	441,377	440,623
Microman, Inc. - Telephone System	OSFC (010)	51,124	35,055	16,069
Stanley Security Solutions - Security	OSFC (010)	1,171,500	0	1,171,500
<u>Combined:</u>				
MKC Associates - Architect	OFSC (010)	1,928,182	1,696,798	231,384
PCS - Construction Manager	OFSC (010)	1,942,996	1,275,746	667,250
Miscellaneous - Permitting/Legal, Etc.	OFSC (010)	620,480	620,480	0
Columbia Gas - Utilities	LFI (004)	120,317	120,317	0
<u>Non-Capitalized Contracts:</u>				
James White Construction - Utilities	LFI (004)	565,395	565,395	0
Miscellaneous - Permitting/Legal, Etc.	LFI (004)	4,471	4,471	0
<u>LFI:</u>				
Benchmark Construction	LFI (004)	547,977	283,818	264,159
Erb Electric - Electrical	LFI (004)	98,630	0	98,630
Metal Masters	LFI (004)	74,777	46,383	28,394
Peterman Plumbing & Heating	LFI (004)	72,160	29,457	42,703
MKC Associates - Architect	LFI (004)	116,862	67,087	49,775
Karris Painting	LFI (004)	33,510	22,570	10,940
Miscellaneous	LFI (004)	110,315	110,315	0
<u>Food Service:</u>				
Business Data	Food Service (006)	19,418	9,709	9,709
Total		<u>\$36,768,596</u>	<u>\$26,794,135</u>	<u>\$9,974,461</u>

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 16 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due In One Year
<i>2005 School Construction and Improvement General Obligation Bonds</i>					
Serial Bonds, \$4,940,000 @ 3.0%-4.55%	\$4,800,000	\$0	\$135,000	\$4,665,000	\$155,000
Term Bonds, \$5,580,000 @ 5.0%	5,580,000	0	0	5,580,000	0
Premium, \$355,273	339,413	0	12,688	326,725	0
Total Bonds and Loans	<u>10,719,413</u>	<u>0</u>	<u>147,688</u>	<u>10,571,725</u>	<u>155,000</u>
Capital Leases	1,056,000	950,000	70,895	1,935,105	76,239
Compensated Absences	759,995	516,120	355,270	920,845	22,798
Total General Long-Term Obligations	<u>\$12,535,408</u>	<u>\$1,466,120</u>	<u>\$573,853</u>	<u>\$13,427,675</u>	<u>\$254,037</u>

The capital leases will be repaid from the Permanent Improvement Levy and General Fund. Compensated absences will be paid from the general and food service funds.

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 issuance of the bonds included a \$355,273 premium and \$175,452 in bond issuance costs that will be amortized over the life of the issue. The bonds were issued for a twenty-eight year period with a final maturity at December 1, 2032.

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 2005 bond issue consists of serial and term bonds. The term bonds that mature December 1, 2017 are subject to mandatory sinking fund redemption at a price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2016	<u>\$265,000</u>

The remaining principal amount of \$280,000 will be paid at stated maturity on December 1, 2017.

The term bonds that mature December 1, 2019 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 in the years and in the respective principal amounts as follows:

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2018	<u><u>\$295,000</u></u>

The remaining principal amount of \$340,000 will be paid at stated maturity on December 1, 2019.

The term bonds that mature December 1, 2021 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 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2020	<u><u>\$355,000</u></u>

The remaining principal amount of \$375,000 will be paid at stated maturity on December 1, 2021

The term bonds that mature December 1, 2032 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 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>to be Redeemed</u>
2028	\$650,000
2029	680,000
2030	720,000
2031	790,000

The remaining principal amount of \$830,000 will be paid at stated maturity on December 1, 2032.

Bonds maturing on or after December 1, 2015 are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date on or after June 30, 2015, at 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

When partial redemption is authorized, the Bonds or portions thereof will be selected by lot within a maturity in such manner as the Bond Registrar may determine, provided, however, that the portion of any such Bond so selected will be in the amount of \$5,000 or any integral multiple thereof.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007 are as follows:

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$155,000	\$486,240	\$641,240
2009	155,000	481,590	636,590
2010	155,000	476,824	631,824
2011	180,000	471,368	651,368
2012	180,000	465,202	645,202
2013-2017	1,095,000	2,209,151	3,304,151
2018-2022	1,645,000	1,888,125	3,533,125
2023-2027	2,425,000	1,383,625	3,808,625
2028-2032	3,425,000	659,625	4,084,625
2033	830,000	20,750	850,750
Total	<u>\$10,245,000</u>	<u>\$8,542,500</u>	<u>\$18,787,500</u>

The School District's overall legal debt margin was \$115,229, with an unvoted debt margin of \$108,772, at June 30, 2007. Although the School District's overall legal debt margin was \$115,229 at June 30, 2007 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.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

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 participating school district's elected boards, which possesses its own budgetary and taxing authority. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2007, the total amount paid to OME-RESA from the School District for services provided was \$16,350. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

East Central Ohio Special Education Regional Resource Center (ECOSERRC) - The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC.

Coalition of Rural and Appalachian Schools (CORAS) - The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is comprised of fourteen members. The board members are comprised of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2007.

NOTE 18 – RELATED ORGANIZATIONS

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

NOTE 19 – INSURANCE PURCHASING POOL

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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 textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0
Current Year Set-aside Requirement	230,888	230,888
Current Year Offsets	0	(1,116,003)
Qualifying Disbursements	<u>(206,284)</u>	<u>(139,866)</u>
Totals	<u>\$24,604</u>	<u>(\$1,024,981)</u>
Allowable Carry Forward for Fiscal Year 2006	(263,349)	(1,318,872)
Current Year Carry Forward Eligible Capital Expenditures	0	(760,789)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$238,745)</u>	<u>(\$2,079,661)</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$0</u>	<u>\$0</u>

The School District has qualifying disbursements from prior fiscal years that may be used to reduce the set-aside requirement of future years. The School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, that may not be carried forward to future years. The District also had current year and prior year capital expenditures from debt proceeds in connection with a school facilities 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, 2007.

B. Litigation

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 22 - SUBSEQUENT EVENTS

Sale of Assets. In August, 2007 the School District sold the bus garage property and received proceeds of \$93,750 for the sale. As of the date of the financial statements, the School District had contracts pending for the sale of the Administration Building, Tennis Courts, and North School. The contract amounts are \$42,000 for the Administration Building, \$22,000 for the Tennis Courts, and \$54,000 for North School; none of the proceeds have been received.

Completion of Construction of Assets. The School Districts' new Administrative building was completed in August, 2007. The project was funded through the Locally Funded Initiatives Fund.

Debt. At the August 13, 2007 regular Board Meeting, the School District Board of Education approved lease-purchase financing in an amount not to exceed \$1,550,000, including an assignment agreement, and an amended and restated lease-purchase agreement, in connection with the OASBO Expanded Asset Pooled Financing Program. The lease was issued for additional costs incurred as part of the Ohio School Facilities Commission project. As of the date of the financial statements, the School District has requested and received \$1,107,000 of these lease proceeds.

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed-Through Ohio Department of Education:</i>						
Food Donation	NA	10.550		\$26,751		\$26,751
Nutrition Cluster:						
School Breakfast Program	05PU-06	10.553	\$10,149		\$10,149	
	05PU-07	10.553	59,306		59,306	
Total School Breakfast Program			69,455	0	69,455	0
National School Lunch Program	LLP4-06	10.555	28,557		28,557	
	LLP4-07	10.555	169,757		169,757	
Total National School Lunch Program			198,314	0	198,314	0
Total Nutrition Cluster			267,769	0	267,769	0
Direct Program						
Distance Learning and Telemedicine Loans and Grants	OH-706-A16	10.855	50,232		44,969	
Total U.S. Department of Agriculture			318,001	26,751	312,738	26,751
U.S. DEPARTMENT OF EDUCATION						
<i>Passed-Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-06	84.010	23,273		74,063	
	C1S1-07	84.010	470,332		447,676	
Total Title I Grants to Local Educational Agencies			493,605	0	521,739	0
Special Education - Grants to States	6BSF-06	84.027	35,797		41,022	
	6BSF-07	84.027	318,569		328,897	
Total Special Education - Grants to States			354,366	0	369,919	0
Safe and Drug-Free Schools and Communities - State Grants	DRS1-06	84.186	(450)			
	DRS1-07	84.186	11,216		10,766	
Total Safe and Drug-Free Schools and Communities - State Grants			10,766	0	10,766	0
State Grants for Innovative Programs	C2S1-06	84.298	(2,803)		462	
	C2S1-07	84.298	5,484		2,681	
Total State Grants for Innovative Programs			2,681	0	3,143	0
Education Technology State Grants	TJS1-06	84.318	(2,214)		1,277	
	TJS1-07	84.318	6,910		3,996	
Total Education Technology State Grants			4,696	0	5,273	0
Improving Teacher Quality State Grants	TRS1-06	84.367	19,732		31,533	
	TRS1-07	84.367	97,452		88,974	
Total Improving Teacher Quality State Grants			117,184	0	120,507	0
Total U.S. Department of Education			983,298	0	1,031,347	0
Total Federal Awards Receipts and Expenditures			\$1,301,299	\$26,751	\$1,344,085	\$26,751

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

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DONATION PROGRAM

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D - TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfers due to ODE administrative action:

CFDA Number	Pass-Through Entity Number	Transfers In	Transfers Out
84.010	C1S1-2006		\$21,662
84.010	C1S1-2007	\$21,662	
84.027	6BSF-2006		225
84.027	6BSF-2007	225	
84.186	DRS1-2006		450
84.186	DRS1-2007	450	
84.298	C2S1-2006		2,803
84.298	C2S1-2007	2,803	
84.318	TJS1-2006		2,214
84.318	TJS1-2007	2,214	
84.367	TRS1-2006		4,539
84.367	TRS1-2007	4,539	
	Total	<u>\$31,893</u>	<u>\$31,893</u>



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Martins Ferry City School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the School District's management in a separate letter dated January 11, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 11, 2008.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 11, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Martins Ferry City School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Martins Ferry City School District, Belmont County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated January 11, 2008.

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



Mary Taylor, CPA
Auditor of State

January 11, 2008

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(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 weakness reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education_Grants to States, C.F.D.A. #84.027
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-001

Noncompliance Citation

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

As of June 30, 2007, the following funds reflected budgetary expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Lunchroom	\$495,000	\$574,350	(\$79,350)
Miscellaneous State Grants	253,715	274,636	(20,921)
School Construction - LFI	900,000	1,375,222	(475,222)
Classroom Facilities	21,692,000	31,573,704	(9,881,704)

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

Officials Response:

We did not receive a response from Officials to this finding.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

MARTINS FERRY CITY SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 31, 2008**