



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, 2008, 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, 2008, 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 28, 2009, 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.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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 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.

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

Mary Taylor, CPA
Auditor of State

January 28, 2009

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
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, 2008. 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 2008 are as follows:

- In total, net assets decreased \$2,323,543.
- General revenues accounted for \$10,853,868 in revenue or 71 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions, accounted for \$4,329,593 or 29 percent of total revenues of \$15,183,461.
- Total assets decreased \$2,010,028. Current assets decreased by \$13,844,982 primarily due to a decrease in cash and investments and intergovernmental receivables related to the classroom facilities project. Capital assets increased \$11,834,954 due primarily to capital assets associated with the classroom facilities project which was offset by an annual depreciation expense on depreciable capital assets.
- The School District had \$17,507,004 in expenses related to governmental activities; only \$4,329,593 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$10,853,868 were not adequate to provide for these programs.
- The School District's major funds are the General Fund, Debt Service Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$10,852,336 in revenues and \$13,053,083 in expenditures, and the fund balance, including other financing sources decreased \$1,872,691. The Debt Service Fund had \$733,960 in revenues and \$659,392 in expenditures, and the fund balance increased \$74,568. The Classroom Facilities Fund had \$832,953 in revenues and \$10,730,111 in expenditures, and the fund balance decreased \$9,537,158.

Using this Annual Financial Report

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

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

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
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 2008?" 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 funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Debt Service Fund, and 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, 2008
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		
	2008	2007	Net Change
Assets			
Current and Other Assets	\$7,409,940	\$21,254,922	(\$13,844,982)
Capital Assets	44,306,502	32,471,548	11,834,954
Total Assets	51,716,442	53,726,470	(2,010,028)
Liabilities			
Long-Term Liabilities	15,776,623	13,427,675	2,348,948
Other Liabilities	5,457,418	7,492,851	(2,035,433)
Total Liabilities	21,234,041	20,920,526	313,515
Net Assets			
Invested in Capital Assets, Net of Debt	30,089,672	29,082,230	1,007,442
Restricted	2,310,665	3,675,113	(1,364,448)
Unrestricted	(1,917,936)	48,601	(1,966,537)
Total Net Assets	\$30,482,401	\$32,805,944	(\$2,323,543)

Total assets decreased \$2,010,028. Current assets decreased by \$13,844,982 primarily due to a decrease in cash and investments and intergovernmental receivables related to the classroom facilities project. Capital assets increased \$11,834,954 due primarily to capital assets associated with the classroom facilities project which was offset by an annual depreciation expense on depreciable capital assets

Total liabilities increased \$313,515. The increase is due primarily to the School District entering into two additional capital leases through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority to finance additional project costs associated with the school building project. The School District also entered into a capital lease for Xerox copiers. This additional debt is offset by debt repayments made on the capital leases and the general obligation bonds that were issued for the local share of the classroom facilities project. Other liabilities decreased \$2,035,433 due primarily to decreases in contracts payable associated with the classroom facilities project.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 2 shows the changes in net assets for fiscal year 2008 compared to fiscal year 2007.

Table 2
Changes in Net Assets

	Governmental Activities		
	2008	2007	Net Change
Revenues			
<i>Program Revenue</i>			
Charges for Services and Sales	\$1,052,463	\$1,001,602	\$50,861
Operating Grants and Contributions	3,267,280	3,084,855	182,425
Capital Grants and Contributions	9,850	504,461	(494,611)
Total Program Revenue	4,329,593	4,590,918	(261,325)
<i>General Revenue</i>			
Property Taxes	3,237,752	3,634,494	(396,742)
Grants and Entitlements	7,122,084	6,996,003	126,081
Gifts and Donations	6,760	0	6,760
Investment Earnings	403,315	1,052,321	(649,006)
Gain on Sale of Capital Assets	82,571	0	82,571
Miscellaneous	1,386	12,776	(11,390)
Total General Revenue	10,853,868	11,695,594	(841,726)
Total Revenues	15,183,461	16,286,512	(1,103,051)
Program Expenses			
Instruction:			
Regular	7,451,274	6,277,269	1,174,005
Special	2,146,489	1,915,996	230,493
Vocational	352,524	314,265	38,259
Support Services:			
Pupil	650,104	568,315	81,789
Instructional Staff	879,431	874,927	4,504
Board of Education	74,600	75,347	(747)
Administration	1,213,217	1,135,317	77,900
Fiscal	354,500	334,470	20,030
Operation and Maintenance of Plant	1,434,521	1,194,614	239,907
Pupil Transportation	806,765	582,997	223,768
Central	82,462	89,440	(6,978)
Operation of Non-Instructional Service	170,953	113,710	57,243
Food Service Operations	719,369	543,657	175,712
Extracurricular Activities	387,009	336,439	50,570
Intergovernmental	159,791	499,048	(339,257)
Interest and Fiscal Charges	623,995	561,829	62,166
Total Expenses	17,507,004	15,417,640	2,089,364
<i>Change in Net Assets</i>	<i>(2,323,543)</i>	<i>868,872</i>	<i>(3,192,415)</i>
Net Assets Beginning of Year	32,805,944	31,937,072	868,872
Net Assets End of Year	\$30,482,401	\$32,805,944	(\$2,323,543)

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In 2008, the School District reported an increase in operating grants and contributions due primarily to an increase in State Foundation payments based on an increase in per pupil amount and additional state aid for low wealth districts. Capital grants and contributions decreased due to the School District receiving capital contributions associated with the football turf project from the Student Athletic Growth Fund in fiscal year 2007. Investment earnings decreased significantly during fiscal year 2008 due to less cash invested as the building project was completed. There was significant decrease in property taxes received due to the state's reduction of Personal Property Taxes for businesses in the state of Ohio, which is offset by the state reimbursement of this tax reduction recorded as intergovernmental revenue.

Total expenses for the School District increased \$2,089,364 primarily due to salaries and benefits. This increase was due to the previous year having only 25 pay periods instead of the usual 26, as well as a 3% salary increase. The School District also added staff and received a five percent increase to health insurance premiums. The School District was also paying for utilities on both new buildings and the old buildings causing the School District utilities bills to be much higher than previous years. The School District's open enrollment expense to other districts was higher than the previous fiscal year. Another large expense incurred was for the excavation of the slip near Ayers Elementary School. During fiscal year 2008, the District had \$159,791 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 government activities, the total cost of services and the net cost of services for fiscal year 2008 compared to fiscal year 2007. 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	
	2008	2007	2008	2007
Instruction:				
Regular	\$7,451,274	\$6,277,269	\$5,994,138	\$4,865,774
Special	2,146,489	1,915,996	786,203	681,515
Vocational	352,524	314,265	274,659	218,540
Support Services				
Pupil	650,104	568,315	644,510	556,040
Instructional Staff	879,431	874,927	370,439	398,314
Board of Education	74,600	75,347	74,600	75,347
Administration	1,213,217	1,135,317	1,167,473	1,073,173
Fiscal	354,500	334,470	353,601	334,470
Operation and Maintenance of Plant	1,434,521	1,194,614	1,434,521	1,194,614
Pupil Transportation	806,765	582,997	796,915	567,581
Central	82,462	89,440	63,377	63,663
Operation of Non-Instructional Services	170,953	113,710	28,494	(8,380)
Food Service Operations	719,369	543,657	118,487	25,663
Extracurricular Activities	387,009	336,439	286,208	(280,469)
Intergovernmental	159,791	499,048	159,791	499,048
Interest and Fiscal Charges	623,995	561,829	623,995	561,829
Total Expenses	<u>\$17,507,004</u>	<u>\$15,417,640</u>	<u>\$13,177,411</u>	<u>\$10,826,722</u>

Martins Ferry City School District
Management's Discussion and Analysis
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The dependence upon tax revenues and state subsidies for governmental activities is apparent, as 75 percent of total expenses are supported through taxes and other general revenues.

The School District Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. Total governmental funds had \$18,348,868 in revenues and other financing sources and \$29,778,507 in expenditures. Overall, including other financing sources, the governmental funds balances decreased \$11,429,639. Of the overall decrease, \$9,537,158 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 2008 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. Original and final expenditures increased by approximately \$721,000 due to the slip repair by Ayers Elementary.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008 the School District had \$44,306,502 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 10 for more detailed information of the School District's capital assets.

Debt

At June 30, 2008, the School District has \$10,404,037 in outstanding general obligation bonds that were issued for the local share of the classroom facilities project, as well as \$4,281,917 in outstanding capital leases related to the stadium construction project, school facilities construction project locally funded initiatives, copier lease, purchase of the bus garage, and land associated with the building project. See Note 17 for more detailed information related to the School District's debt.

Economic Factors

Based on the most recent Board adopted five year forecast:

The budget for fiscal year 2009 will see the General Fund end the year with a deficit balance.

Revenues are expected to increase by \$495,700 during fiscal year 2009. We are expecting to see a decrease in local taxes of \$463,800. This is the result of the state doing away with the Personal Property Tax, passed by the state legislature a few years ago. This phase out is over a period of time in which the total elimination of the PPT will have been reached. The School District expects to see an increase of \$179,000 in other local revenues; this increase will be a onetime only increase, as the School District will receive a large E-Rate payment for communication work done at the new buildings.

Martins Ferry City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Homestead/Rollback Taxes will increase by \$99,000, this increase is suppose to reimburse the School District for lost Personal Property Taxes but the payment is significant less than the amount the School District has lost for the upcoming fiscal year. The State Foundation payment for the School District is expected to increase by \$670,200. The increase is based on the School District SF-3 that shows large increases to the district's Parity Aid and the Excess Cost Supplement.

Early student counts for the start of the current year show an increase of student over what the State Foundation is showing. If these numbers hold up through October count week the School District could see higher revenue from the State Foundation based on higher student enrollment. Medicaid/Federal revenues will increase by \$10,300; we will receive a Medicaid adjustment of \$20,400 from a previous year's Medicaid Program.

Expenditures are expected to decrease by \$8,800 for fiscal year 2009. Wages/Salaries will see an increase of \$2,900 this small increase is due to the teacher's not asking for a raise for the coming school year and the anticipated lower personal cost with move to the new school buildings. Retirement/Benefits will increase by \$187,700 this increase is due to an increase of the School District's medical insurance of 9.5%. Purchased service will decrease by \$72,000 it's anticipated that utility expenses will be lower this year. This is the result of the School District no longer having to make utility payments on the old school buildings. Material/Supplies will have a decrease of \$73,600 from the previous school year. This will be the result of spending less on educational textbooks and supplies. Capital Outlay will have a decrease of \$38,500 for the coming school year. The anticipated expenditure of \$771,000 is the main reason the School District will finish the school year with a General Fund deficit. The School District is still paying for the slip by Ayers Elementary School. It is hoped that the Ohio School Facilities Commission will assist the School District with some of the expense of this costly repair. If the OSFC does offer financial assistance for this repair the School District's ending balance could end with a positive balance.

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 Rd, Martins Ferry, Ohio 43935.

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Martins Ferry City School District

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,492,175
Investments	1,346,020
Intergovernmental Receivable	474,504
Materials and Supplies Inventory	13,712
Prepaid Items	39,219
Property Taxes Receivable	3,409,331
Cash and Cash Equivalents with Escrow Agents	479,892
Deferred Charges	155,087
Non-Depreciable Capital Assets	1,663,973
Depreciable Capital Assets, Net	42,642,529
Total Assets	<u>51,716,442</u>
Liabilities	
Accounts Payable	31,427
Contracts Payable	89,612
Accrued Wages and Benefits Payable	1,304,212
Intergovernmental Payable	469,200
Accrued Interest Payable	39,773
Vacation Benefits Payable	71,712
Matured Severance Payable	44,889
Retirement Incentive Payable	8,320
Retainage Payable	628,003
Deferred Revenue	2,770,270
Long-Term Liabilities:	
Due Within One Year	349,423
Due In More Than One Year	15,427,200
Total Liabilities	<u>21,234,041</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	30,089,672
Restricted for:	
Debt Service	382,471
Capital Projects	1,585,428
Food Service	3,375
Classroom Facilities Maintenance	177,499
State Programs	27,360
Federal Programs	104,743
Other Purposes	29,789
Unrestricted	(1,917,936)
Total Net Assets	<u><u>\$30,482,401</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, 2008

	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	\$7,451,274	\$718,089	\$739,047	\$0	(\$5,994,138)
Special	2,146,489	0	1,360,286	0	(786,203)
Vocational	352,524	0	77,865	0	(274,659)
Support Services:					
Pupil	650,104	0	5,594	0	(644,510)
Instructional Staff	879,431	0	508,992	0	(370,439)
Board of Education	74,600	0	0	0	(74,600)
Administration	1,213,217	0	45,744	0	(1,167,473)
Fiscal	354,500	0	899	0	(353,601)
Operation and Maintenance of Plant	1,434,521	0	0	0	(1,434,521)
Pupil Transportation	806,765	0	0	9,850	(796,915)
Central	82,462	0	19,085	0	(63,377)
Operation of Non-Instructional Service	170,953	0	142,459	0	(28,494)
Food Service Operations	719,369	233,573	367,309	0	(118,487)
Extracurricular Activities	387,009	100,801	0	0	(286,208)
Intergovernmental	159,791	0	0	0	(159,791)
Interest and Fiscal Charges	623,995	0	0	0	(623,995)
<i>Total Governmental Activities</i>	<u>\$17,507,004</u>	<u>\$1,052,463</u>	<u>\$3,267,280</u>	<u>\$9,850</u>	<u>(13,177,411)</u>

General Revenues

Property Taxes Levied for General Purposes	2,499,168
Property Taxes Levied for Capital Outlay	85,435
Property Taxes Levied for Debt Service	587,547
Property Taxes Levied for Building Maintenance	65,602
Grants and Entitlements not Restricted to Specific Programs	7,122,084
Gifts and Donations	6,760
Investment Earnings	403,315
Gain on Sale of Capital Assets	82,571
Miscellaneous	1,386
<i>Total General Revenues</i>	<u>10,853,868</u>
Change in Net Assets	(2,323,543)
<i>Net Assets Beginning of Year</i>	<u>32,805,944</u>
<i>Net Assets End of Year</i>	<u><u>\$30,482,401</u></u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Balance Sheet
Governmental Funds
June 30, 2008

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$405,956	\$613,694	\$0	\$324,414	\$1,344,064
Investments	0	0	1,346,020	0	1,346,020
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	103,570	0	44,541	0	148,111
Cash and Cash Equivalents with Escrow Agents	0	0	449,767	30,125	479,892
Receivables:					
Property Taxes	2,607,458	642,574	0	159,299	3,409,331
Intergovernmental	26,351	0	215,591	232,562	474,504
Interfund	8,862	0	0	0	8,862
Prepaid Items	38,716	0	0	503	39,219
Materials and Supplies Inventory	800	0	0	12,912	13,712
<i>Total Assets</i>	<u>\$3,191,713</u>	<u>\$1,256,268</u>	<u>\$2,055,919</u>	<u>\$759,815</u>	<u>\$7,263,715</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$29,912	\$0	\$0	\$1,515	\$31,427
Contracts Payable	89,612	0	0	0	89,612
Accrued Wages and Benefits	1,101,638	0	0	202,574	1,304,212
Interfund Payable	0	0	0	8,862	8,862
Intergovernmental Payable	341,056	0	0	128,144	469,200
Matured Severance Payable	44,889	0	0	0	44,889
Retirement Incentive Payable	8,320	0	0	0	8,320
Retainage Payable	103,570	0	494,308	30,125	628,003
Deferred Revenue	2,484,187	610,954	115,591	242,547	3,453,279
<i>Total Liabilities</i>	<u>4,203,184</u>	<u>610,954</u>	<u>609,899</u>	<u>613,767</u>	<u>6,037,804</u>
Fund Balances					
Reserved for Encumbrances	21,526	0	1,018,235	14,156	1,053,917
Reserved for Property Taxes	123,271	31,620	0	7,603	162,494
Unreserved, Undesignated, Reported in:					
General Fund	(1,156,268)	0	0	0	(1,156,268)
Special Revenue Funds	0	0	0	122,884	122,884
Debt Service Fund	0	613,694	0	0	613,694
Capital Projects Funds	0	0	427,785	1,405	429,190
<i>Total Fund Balances (Deficit)</i>	<u>(1,011,471)</u>	<u>645,314</u>	<u>1,446,020</u>	<u>146,048</u>	<u>1,225,911</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,191,713</u>	<u>\$1,256,268</u>	<u>\$2,055,919</u>	<u>\$759,815</u>	<u>\$7,263,715</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, 2008*

Total Governmental Fund Balances \$1,225,911

*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. 44,306,502

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

Grants	206,442	
Property Taxes	476,567	
Total		683,009

Unamortized issuance costs represent deferred charges which
do not provide current financial resources and, therefore, are
not reported in the funds. 155,087

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

General Obligation Bonds	10,090,000	
Bond Premium	314,037	
Compensated Absences	1,090,669	
Vacation Benefits Payable	71,712	
Accrued Interest Payable	39,773	
Capital Leases	4,281,917	
Total		(15,888,108)

Net Assets of Governmental Activities \$30,482,401

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, 2008

	General	Debt Service	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$2,440,193	\$574,550	\$0	\$147,518	\$3,162,261
Intergovernmental	7,616,110	131,372	537,147	2,560,881	10,845,510
Interest	76,833	28,038	295,806	2,638	403,315
Tuition and Fees	713,481	0	0	0	713,481
Extracurricular Activities	0	0	0	100,801	100,801
Contributions and Donations	0	0	0	6,760	6,760
Charges for Services	4,608	0	0	233,573	238,181
Miscellaneous	1,111	0	0	275	1,386
<i>Total Revenues</i>	<u>10,852,336</u>	<u>733,960</u>	<u>832,953</u>	<u>3,052,446</u>	<u>15,471,695</u>
Expenditures					
Current:					
Instruction:					
Regular	5,527,135	0	0	743,659	6,270,794
Special	1,312,993	0	0	712,273	2,025,266
Vocational	315,141	0	0	3,156	318,297
Support Services:					
Pupil	611,131	0	0	5,700	616,831
Instructional Staff	357,112	0	0	488,926	846,038
Board of Education	75,673	0	0	0	75,673
Administration	1,108,239	0	0	47,689	1,155,928
Fiscal	284,729	18,273	9,600	44,858	357,460
Operation and Maintenance of Plant	1,366,525	0	0	20,500	1,387,025
Pupil Transportation	737,632	0	0	0	737,632
Central	62,331	0	0	22,531	84,862
Operation of Non-Instructional Services	0	0	0	165,284	165,284
Food Service Operations	0	0	0	652,419	652,419
Extracurricular Activities	216,480	0	0	129,702	346,182
Capital Outlay	904,721	0	10,360,511	2,407,800	13,673,032
Intergovernmental	0	0	0	159,791	159,791
Debt Service:					
Principal Retirement	77,089	155,000	0	43,105	275,194
Interest and Fiscal Charges	96,152	486,119	0	48,528	630,799
<i>Total Expenditures</i>	<u>13,053,083</u>	<u>659,392</u>	<u>10,370,111</u>	<u>5,695,921</u>	<u>29,778,507</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>(2,200,747)</u>	<u>74,568</u>	<u>(9,537,158)</u>	<u>(2,643,475)</u>	<u>(14,306,812)</u>
Other Financing Sources					
Sale of Capital Assets	50	0	0	410,117	410,167
Inception of Capital Leases	328,006	0	0	2,139,000	2,467,006
<i>Total Other Financing Sources</i>	<u>328,056</u>	<u>0</u>	<u>0</u>	<u>2,549,117</u>	<u>2,877,173</u>
<i>Net Change in Fund Balances</i>	(1,872,691)	74,568	(9,537,158)	(94,358)	(11,429,639)
<i>Fund Balances Beginning of Year</i>	<u>861,220</u>	<u>570,746</u>	<u>10,983,178</u>	<u>240,406</u>	<u>12,655,550</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,011,471)</u>	<u>\$645,314</u>	<u>\$1,446,020</u>	<u>\$146,048</u>	<u>\$1,225,911</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, 2008*

Net Change in Fund Balances - Total Governmental Funds (\$11,429,639)

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	13,041,656	
Depreciation	(879,106)	
Total	12,162,550	12,162,550

Capital Assets removed from the capital asset account on the statement of net assets results in a gain on disposal of capital assets on the statement of activities. (327,596)

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

Property Taxes	75,491	
Grants	(446,296)	
Total	(370,805)	(370,805)

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	155,000	
Capital Leases	120,194	
Total	275,194	275,194

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	382	
Premium	12,688	
Total	13,070	13,070

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. (2,467,006)

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	(3,221)	
Compensated Absences	(169,824)	
Total	(173,045)	(173,045)

Change in Net Assets of Governmental Activities (\$2,323,543)

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, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$2,011,000	\$2,540,000	\$2,640,753	\$100,753
Intergovernmental	7,874,000	7,345,000	7,589,759	244,759
Interest	120,000	120,000	74,916	(45,084)
Tuition and Fees	678,000	678,000	713,481	35,481
Charges for Services	20,000	20,000	4,608	(15,392)
Miscellaneous	1,000	1,000	1,111	111
<i>Total Revenues</i>	<u>10,704,000</u>	<u>10,704,000</u>	<u>11,024,628</u>	<u>320,628</u>
Expenditures				
Current:				
Instruction:				
Regular	5,421,200	5,526,700	5,512,553	14,147
Special	1,277,400	1,255,600	1,254,502	1,098
Vocational	304,000	298,600	298,326	274
Support Services:				
Pupil	545,000	599,050	598,785	265
Instructional Staff	366,400	368,900	366,016	2,884
Board of Education	97,200	75,800	73,362	2,438
Administration	1,083,900	1,132,000	1,127,021	4,979
Fiscal	293,800	293,300	292,314	986
Operation and Maintenance of Plant	1,179,900	1,379,600	1,376,358	3,242
Pupil Transportation	614,000	754,350	752,820	1,530
Central	64,000	64,200	62,368	1,832
Extracurricular Activities	251,000	216,800	215,057	1,743
Capital Outlay	258,000	427,600	426,675	925
Debt Service:				
Principal Retirement	0	29,900	29,895	5
Interest and Fiscal Charges	0	54,700	53,698	1,002
<i>Total Expenditures</i>	<u>11,755,800</u>	<u>12,477,100</u>	<u>12,439,750</u>	<u>37,350</u>
Excess of Revenues Under Expenditures	(1,051,800)	(1,773,100)	(1,415,122)	357,978
Other Financing Sources				
Sale of Capital Assets	1,000	1,000	50	(950)
<i>Net Change in Fund Balance</i>	(1,050,800)	(1,772,100)	(1,415,072)	357,028
<i>Fund Balance Beginning of Year</i>	1,860,987	1,860,987	1,860,987	0
Prior Year Encumbrances Appropriated	47,112	47,112	47,112	0
<i>Fund Balance End of Year</i>	<u>\$857,299</u>	<u>\$135,999</u>	<u>\$493,027</u>	<u>\$357,028</u>

See accompanying notes to the basic financial statements

Martins Ferry City School District
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2008

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,958</u>
<i>Total Assets</i>	<u><u>\$16,958</u></u>
Liabilities	
Due to Students	<u>\$16,958</u>
<i>Total Liabilities</i>	<u><u>\$16,958</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, 2008

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 70 non-certified employees, 116 certified full-time teaching personnel and 9 administrative employees, who provide services to 1,554 students and other community members. The School District currently operates 2 instructional/support buildings, 1 administrative building, and 1 bus garage facility.

Reporting Entity:

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

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

The following activities are included within the reporting entity:

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

The School District participates in the Belmont-Harrison Vocational School District, the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Ohio Educational Resource Center (ECOSERRC), Educational Regional Service System Region 12 (ERSS), the Coalition of Rural and Appalachian Schools (CORAS) which are jointly governed organizations, the Martins Ferry Public Library, a related organization, the Ohio Association of School Business Officials Workers’ Compensation Group Rating Program (GRP) and the Ohio School Plan (OSP), which are defined as an insurance purchasing pool. These organizations are presented in Notes 18, 19, and 20.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. 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, 2008

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.

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

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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 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 2008, investments were limited to 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 statutes, 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 2008 amounted to \$76,833, which includes \$13,384 assigned from other School District funds.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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 General Fund, and the Classroom Facilities major funds, and the Locally Funded Initiatives capital projects 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, 2008, 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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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:

Description	Estimated Lives
Land	N/A
Construction in Progress	N/A
Land Improvements	5 - 50 Years
Buildings and Improvements	20 - 50 Years
Furniture and Equipment	5-20 Years
Vehicles	5 - 8 Years

J. Interfund Balances

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

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-term Obligations

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

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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. Internal Activity

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

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

O. Fund Balance 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. Of the total restricted net assets, none has resulted from enabling legislation.

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the STRS and the SERS post-employment healthcare plans in the amount of \$14,486, and \$32,445 respectively, which are the same as the previously reported liabilities.

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For the Fiscal Year Ended June 30, 2008

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

In prior years, the Debt Service Fund had been reported as a non-major fund. During fiscal year 2008, the Debt Service Fund is presented as a major fund. The prior year fund balance is presented as a reconciling item in the table below for comparability between funds.

	General	Debt Service	Classroom Facilities	Other Governmental	Total Governmental Funds
Fund Balances, June 30, 2007	\$861,220	\$0	\$10,983,178	\$811,152	\$12,655,550
Debt Service Fund					
Major at June 30, 2008	0	570,746	0	(570,746)	0
Restated Fund					
Balances, June 30, 2007	<u>\$861,220</u>	<u>\$570,746</u>	<u>\$10,983,178</u>	<u>\$240,406</u>	<u>\$12,655,550</u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

	Net Change in Fund Balance	General
GAAP Basis		(\$1,872,691)
Revenue Accruals		174,209
Unrecorded Cash		(1,917)
Inception of Capital Lease		(328,006)
Expenditure Accruals		636,777
Encumbrances		(23,444)
Budget Basis		(\$1,415,072)

NOTE 5 – COMPLIANCE

At June 30, 2008, the following funds had deficit fund balances:

	Deficit Fund Balance
General Fund	\$1,011,471
Poverty Based Assistance Special Revenue Fund	131,770

The deficit in the General Fund was created by expenditures exceeding revenues as well as the application of generally accepted accounting principles. The School District will monitor future spending.

The deficit in the Poverty Based Assistance Special Revenue Fund was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

At June 30, 2008, appropriations exceeded estimated revenue in the following funds:

Fund	Estimated Resources	Appropriations	Variance
Miscellaneous Federal Grants	\$559,620	\$605,042	(\$45,422)
Title I Grant	548,743	557,749	(9,006)
Lunchroom	535,783	677,291	(141,508)
School Construction – Locally Funded Initiative (LFI)	1,241,054	1,770,400	(529,346)

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Also, at June 30, 2008, the following funds reflected budgetary expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
Miscellaneous State Grants	\$207,898	\$232,916	(\$25,018)
School Construction – LFI	2,398,000	2,868,046	(470,046)
Classroom Facilities	4,672,000	13,247,029	(8,575,029)

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 6 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

Martins Ferry City School District
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6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above;
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, \$2,014,893 of the School District's bank balance of \$2,216,810 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.

Investments

As of June 30, 2008, the School District had the following investments:

	Fair Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Money Market Mutual Funds	\$43,858	N/A	3.16%	AAAm	S&P
Federal Home Loan Mortgage Corporation - Notes	349,720	7/15/08	^ 25.16%	AAA	S&P
Federal National Mortgage Association - Notes	<u>996,300</u>	8/29/08	^ <u>71.68%</u>	AAA	S&P
Totals	<u><u>\$1,389,878</u></u>		<u><u>100.00%</u></u>		

^ = See Subsequent Event Note 23

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.

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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.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. 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 2008 is 6.25 percent. This will be reduced to 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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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, 2008, was \$123,271 in the General Fund, \$31,620 in the Debt Service Fund, \$1,902 in the Classroom Maintenance Special Revenue Fund, and \$5,701 in the Permanent Improvement Capital Projects Fund. 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.

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

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$103,549,990	82.9%	\$104,371,250	90.0%
Public Utility Personal	6,335,210	5.1%	5,624,480	4.9%
General Business Property	15,010,040	12.0%	5,912,190	5.1%
	\$124,895,240	100.0%	\$115,907,920	100.0%
Tax Rate per \$1,000 of assessed valuation		\$43.09		\$43.09

NOTE 8 - RECEIVABLES

Receivables at June 30, 2008, consisted of property taxes, interfund, 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 \$476,567 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>
Bus Purchase Allowance	\$5,693
Community Alternative Funding System	20,658
Title I	70,507
Titel II-A	98,198
Part B - IDEA	63,857
Ohio School Facilities	215,591
Total Intergovernmental Receivables	\$474,504

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 9 - INTERNAL BALANCES

Interfund balances at June 30, 2008, consist of the following interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Other Nonmajor Governmental Funds	<u>General Fund</u> <u>\$8,862</u>

This loan was made from the General Fund to cover a cash deficit in the Title I Fund until grant monies are received.

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Deletions	Balance 6/30/08
Nondepreciable Capital Assets:				
Land	\$564,582	\$1,113,973	(\$14,582)	\$1,663,973
Construction in Progress	28,172,010	0	(28,172,010)	0
Total Nondepreciable Capital Assets	28,736,592	1,113,973	(28,186,592)	1,663,973
Depreciable Capital Assets:				
Land Improvements	732,459	2,861,492	(159,891)	3,434,060
Buildings and Improvements	4,113,893	35,512,544	(676,987)	38,949,450
Furniture and Equipment	1,874,870	1,563,057	(1,107,944)	2,329,983
Vehicles	846,539	162,600	(36,270)	972,869
Total Depreciable Capital Assets	7,567,761	40,099,693	(1,981,092)	45,686,362
Accumulated Depreciation:				
Land Improvements	(195,385)	(103,653)	110,459	(188,579)
Buildings and Improvements	(1,607,520)	(504,471)	590,547	(1,521,444)
Furniture and Equipment	(1,427,261)	(214,543)	944,672	(697,132)
Vehicles	(602,639)	(56,439)	22,400	(636,678)
Total Accumulated Depreciation	(3,832,805)	(879,106)	1,668,078	(3,043,833)
Total Depreciable Capital Assets, Net	3,734,956	39,220,587	(313,014)	42,642,529
Governmental Capital Assets, Net	\$32,471,548	\$40,334,560	(\$28,499,606)	\$44,306,502

Martins Ferry City School District
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$380,515
Special	66,541
Vocational	24,187
Support Services:	
Pupil	9,764
Instructional Staff	32,547
Administration	76,310
Fiscal	6,509
Operation and Maintenance of Plant	73,932
Pupil Transportation	77,428
Food Service Operations	68,666
Operation of Non-Instructional Services	5,669
Extracurricular Activities	57,038
	57,038
Total Depreciation Expense	\$879,106

During fiscal year 2008, the District had \$159,791 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.

NOTE 11- RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008 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 (\$1,000 deductible)	\$38,377,000
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 2008, 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 20).

Martins Ferry City School District
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The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	1,000,000
Personal and Advertising Injury Limit - Each Occurrence	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Employers Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Violence:	
Each Occurrence	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 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school district is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to School Districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administration, cost control, and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746.

Funding Policy - 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations.

Martins Ferry City School District
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The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$175,485, \$161,721, and \$139,291 respectively; 47.02 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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 Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$862,718, \$826,852, and \$779,368 respectively; 79.15 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$116 made by the School District and \$3,232 made by the plan members.

Martins Ferry City School District
Notes to the Basic Financial Statements
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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, 2008, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$80,079, \$64,688, and \$48,610 respectively; 47.02 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$12,644, \$10,997, and \$11,086 respectively; 47.02 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$63,386, \$57,428, and \$59,064 respectively; 79.15 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave up to maximum of 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 premium rate of \$1,164.19 for a family plan and \$465.68 for a single plan. The Health Assurance is at a premium rate of \$1,337.85 for a family plan and \$535.03 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 \$50,000 for superintendant, \$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 \$58.70 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.

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 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 School District had \$8,320 outstanding in retirement incentives payable that are scheduled to be repaid during fiscal year 2009.

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into a capital lease to finance the construction of a new grandstand facility at the stadium. The lease arrangements are through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority as the lesser.

Martins Ferry City School District
Notes to the Basic Financial Statements
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During fiscal year 2008, the School District entered into two additional capital leases through the OASBO Expanded Asset Pooled Financing Program with the Columbus Regional Airport Authority to finance additional project costs associated with the classroom facilities project. During fiscal year 2008, the School District also entered into a capital lease for Xerox copiers.

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

The assets acquired by the leases have been capitalized in government wide statements governmental activities as land, buildings and improvements, and furniture, fixtures and equipment in the amount of \$4,813,028, 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, \$4,627,778. Principal payments in fiscal year 2008 totaled \$120,194 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>
2009	\$165,720	\$219,480	\$385,200
2010	177,948	185,430	363,378
2011	187,306	177,926	365,232
2012	196,800	169,952	366,752
2013	170,918	161,859	332,777
2014-2018	798,220	709,843	1,508,063
2019-2023	830,568	515,378	1,345,946
2024-2028	873,738	324,296	1,198,034
2029-2033	719,017	118,552	837,569
2034-2037	161,682	10,721	172,403
Total	<u>\$4,281,917</u>	<u>\$2,593,437</u>	<u>\$6,875,354</u>

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 16 – CONSTRUCTION COMMITMENT

As of June 30, 2008, 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, 2008	Amounts Remaining on Contracts
<u>CAPITALIZED CONTRACTS:</u>				
<u>High School/Middle School:</u>				
Colianni Construction - B-Structure	OSFC (010)	\$9,473,088	\$9,473,088	\$0
RF Scurlock Excavating - B-Structure	OSFC (010)	3,094,279	3,092,013	2,266
Cattrell Companies, Inc. - B- HVAC	OSFC (010)	4,465,000	4,465,000	0
Erb Electric -B-Electric/Plumbing	OSFC (010)	2,720,153	2,720,153	0
W.G. Tomko - B-Electric/Plumbing	OSFC (010)	940,846	940,846	0
Dalmation Fire, Inc. - B-Electric/Plumbing	OSFC (010)	294,000	289,949	4,051
Commercial Appliance - B- Structure	OSFC (010)	279,492	279,492	0
Farnham Equipment - Furnishings	OSFC (010)	563,700	563,700	0
Flag Floors - B-Structure	OSFC (010)	316,111	316,111	0
Continental Furnishings - Furnishings	OSFC (010)	845,640	725,640	120,000
RAME - B- Roofing	OSFC (010)	541,800	538,850	2,950
<u>Elementary School:</u>				
Colianni Construction - B-Structure	OSFC (010)	4,232,894	4,232,894	0
Saup/Hartley - B- Roofing	OSFC (010)	302,810	302,810	0
DeGol - B-Structure	OSFC (010)	179,199	179,199	0
Farnham Equipment - Furnishings	OSFC (010)	275,809	272,800	3,009
BrySCO Foodservice - B-Structure	OSFC (010)	195,372	195,372	0
S.A. Comunale Co. - B-Electric/Plumbing	OSFC (010)	144,620	144,620	0
Peterman Plumbing -B-Electric/Plumbing	OSFC (010)	545,424	545,424	0
Davidson Electric	OSFC (010)	1,008,215	1,008,215	0
Microman, Inc. - B - Structure	OSFC (010)	86,826	86,826	0
Stanley Security Solutions - B - Structure	OSFC (010)	578,381	549,098	29,283
Stanley Security Solutions - B - Structure	OSFC (010)	257,000	252,780	4,220
Stanley Security Solutions - B - Structure	OSFC (010)	92,000	90,340	1,660
Stanley Security Solutions - B - Structure	OSFC (010)	339,500	334,356	5,144
<u>Combined:</u>				
MKC Associates - B - Structure	OFSC (010)	1,947,460	1,905,627	41,833
PCS - Construction Manager - B-Structure	OFSC (010)	1,942,996	1,835,814	107,182
Lash Paving - Land Improvements	OFSC (010)	919,472	903,966	15,506
Service Supply - Land Improvements	OFSC (010)	129,000	124,680	4,320
Miscellaneous - Permitting/Legal-B-Structure	OFSC (010)	737,577	737,577	0
Columbia Gas - Land Improvements	LFI (004)	120,317	120,317	0

Martins Ferry City School District
Notes to the Basic Financial Statements
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Contractor	Fund	Purchased Commitments	Amounts Paid as of June 30, 2008	Amounts Remaining on Contracts
<u>CAPITALIZED CONTRACTS (Cont.):</u>				
<u>Non-Capitalized Contracts:</u>				
James White Construction - Utilities	LFI (004)	\$565,395	\$565,395	\$0
Mid-Atlantic Storage - Utilities	OFSC (010)	314,763	314,763	0
Karris Painting	LFI (004)	22,570	22,570	0
Raze	LFI (004)	71,211	71,211	0
Miscellaneous - Permitting/Legal, Etc.	LFI (004)	4,471	0	4,471
<u>LFI:</u>				
Benchmark Construction - B-Structure	LFI (004)	728,467	728,467	0
Erb Electric - B-Electrical	LFI (004)	68,962	68,962	0
Metal Masters	LFI (004)	90,819	90,819	0
Peterman - B-Electric/Plumbing	LFI (004)	83,932	83,932	0
MKC Associates - B - Structure	LFI (004)	123,755	123,755	0
Lash Paving - Land Improvements	LFI (004)	824,095	751,358	72,737
Esterlee Fencing - Land Improvements	LFI (004)	125,220	97,376	27,844
VascoSports Inc. - Land Improvements	LFI (004)	326,389	300,278	26,111
Colainni Construction	LFI (004)	553,640	496,899	56,741
DF&G System - Furnishings	LFI (004)	10,020	10,020	0
Daktronics - Furnishings	LFI (004)	40,738	40,738	0
RST Excavating - Land Improvements	LFI (004)	63,358	63,358	0
Cesario's - Land Improvements	LFI (004)	66,528	66,528	0
Ferry Hardware - B - Structure	LFI (004)	19,764	19,764	0
Columbia Gas/AEP - B-Structure	LFI (004)	65,101	65,101	0
Ferdas - Land Improvements	LFI (004)	34,619	34,619	0
MF Water Dept - B-Structure	LFI (004)	5,200	5,200	0
PSI Ground Testing - B-Structure	LFI (004)	22,500	22,500	0
WG Tomko - B-Structure	LFI (004)	17,184	17,184	0
Belmont Aggregate- Land Improvements	LFI (004)	45,000	45,000	0
Miscellaneous - B-Structure	LFI (004)	110,315	110,315	0
<u>General Fund:</u>				
Colainni Construction - Land Improvements	General Fund (001)	650,884	329,134	321,750
<u>Food Service:</u>				
Business Data - Furnishings	Food Service (006)	19,418	19,418	0
Total		\$42,643,299	\$41,792,221	\$851,078

Martins Ferry City School District
Notes to the Basic Financial Statements
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NOTE 17 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2008 were as follows:

	Principal Outstanding 6/30/07	Additions	Deductions	Principal Outstanding 6/30/08	Amounts Due In One Year
<i>2005 School Construction and Improvement General Obligation Bonds</i>					
Serial Bonds, \$4,940,000 @ 3.0%-4.55%	\$4,665,000	\$0	\$155,000	\$4,510,000	\$155,000
Term Bonds, \$5,580,000 @ 5.0%	5,580,000	0	0	5,580,000	0
Premium, \$355,273	326,725	0	12,688	314,037	0
Total Bonds and Loans	<u>10,571,725</u>	<u>0</u>	<u>167,688</u>	<u>10,404,037</u>	<u>155,000</u>
Capital Leases	1,935,105	2,467,006	120,194	4,281,917	165,720
Compensated Absences	920,845	582,159	412,335	1,090,669	28,703
Total General Long-Term Obligations	<u>\$13,427,675</u>	<u>\$3,049,165</u>	<u>\$700,217</u>	<u>\$15,776,623</u>	<u>\$349,423</u>

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

2005 School Construction and Improvement General Obligation Bonds - On March 31, 2005, the School District issued \$10,520,000 in voted general obligation bonds which included serial and term bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program (approximately 86% of the total of the bonds), as well as a portion of the project that will not be covered under the Classroom Facilities Assistance Program that is the Local Fund Initiative (approximately 14% of the total of the bonds). The 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 such bonds \$280,000 will be paid at stated maturity on December 1, 2017.

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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:

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

The remaining principal amount of such bonds \$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 such bonds \$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 such bonds \$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.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2008 are as follows:

Fiscal Year Ending June 30, 2008	Principal	Interest	Total
2009	\$155,000	\$481,592	\$636,592
2010	155,000	476,824	631,824
2011	180,000	471,347	651,347
2012	180,000	465,202	645,202
2013	185,000	458,676	643,676
2014-2018	1,190,000	2,159,725	3,349,725
2019-2023	1,790,000	1,802,250	3,592,250
2024-2028	2,585,000	1,258,375	3,843,375
2029-2033	3,670,000	482,250	4,152,250
Total	<u>\$10,090,000</u>	<u>\$8,056,241</u>	<u>\$18,146,241</u>

The School District's overall legal debt margin was \$78,806, with an unvoted debt margin of \$109,306, at June 30, 2008. Although the School District's overall legal debt margin was \$78,806 at June 30, 2008 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 18 - JOINTLY GOVERNED ORGANIZATIONS

The Belmont-Harrison Vocational School District - The Belmont-Harrison Vocational School District, a joint vocational school, is a jointly governed organization providing vocational services to its member school districts. The Vocational School is governed by a board of education comprised of members appointed from each of the participating schools' boards of education. The board controls the financial activity of the Vocational School and reports to the Ohio Department of Education and the Auditor of State of Ohio. To obtain financial information write to the Belmont-Harrison Vocational School, Mark Lucas, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) is a jointly governed organization created as a regional council of governments pursuant to state statutes. OME-RESA participants consist of school districts and county educational service centers. OME-RESA provides financial accounting services, educational management information, and cooperative purchase services to member districts. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a governing board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the governing board. OME-RESA has no outstanding debt. During fiscal year 2008, the total amount paid to OME-RESA from the School District was \$89,437 for cooperative gas purchasing services and \$9,908 for financial accounting services, educational management information, and internet access.

Martins Ferry City School District
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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.

The East Central Ohio Special Education Regional Resource Center – The East Central Ohio Special Education Regional Resource Center (ECOSERRC) is a not-for-profit council of governments of various school districts and other organizations in east central Ohio that operates under the direction of an Advisory Board that consists of one or more superintendents from each of the 10 participating counties. This Board establishes policy, approves the budget and recommends employment through its fiscal agent, Tuscarawas, Carroll, Harrison Educational Service Center. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC. As of July 1, 2008 the ECOSERRC ceased operations.

Educational Regional Service System Region 12 (ERSS) – The School District participates in the Educational Regional Service System Region 12, a jointly governed organization consisting of educational entities within Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council.

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 2008.

Martins Ferry City School District
Notes to the Basic Financial Statements
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NOTE 19 – 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 20 – 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 (OSP) – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 21 - 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.

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2007	\$0	\$0
Current Year Set-aside Requirement	237,994	237,994
Current Year Offsets	0	(2,626,569)
Qualifying Disbursements	(257,706)	(786,809)
Totals	(\$19,712)	(\$3,175,384)
Allowable Carry Forward for Fiscal Year 2007	(238,745)	(2,079,661)
Current Year Carry Forward Eligible Capital Expenditures	0	(8,459,393)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$258,457)	(\$10,539,054)
Set-aside Reserve Balance as of June 30, 2008	\$0	\$0

The School District has qualifying disbursements for the textbooks set-aside from the current and 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 22 - 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, 2008.

B. Litigation

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

NOTE 23 - SUBSEQUENT EVENTS

Assets. The School District donated the South Elementary building to the City of Martins Ferry in August, 2008. In September of 2008, the School District demolished the Elm Elementary building and sold the property at an auction for \$61,437, as well as demolished the High School Building and donated the property to the City of Martins Ferry.

Martins Ferry City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Investments. The investments held at June 30, 2008 matured on July 15, 2008 and August 29, 2008. As of the date of the financial statements, the School District has the following investments:

	Market Value	Maturity	Percent of Total Investments	Rating	Rating Agency
Federal Home Loan Bank - Notes	\$299,970	11/14/08	30.41%	AAA	S&P
Federal Home Loan Bank - Notes	249,975	11/17/08	25.34%	AAA	S&P
Federal Home Loan Bank - Notes	99,970	12/1/08	10.14%	AAA	S&P
Mortgage Association - Notes	299,910	12/1/08	30.41%	AAA	S&P
Money Market Mutual Fund	36,540	N/A	3.70%	AAA	S&P
Totals	<u>\$986,365</u>		<u>100.00%</u>		

Cost Reduction Plan. The School District Board of Education authorized a cost reduction plan at their October 13, 2008 Regular Board Meeting that included a Reduction-In-Force of twelve teacher's aide positions effective November 25, 2008.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed-Through Ohio Department of Education.</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):	NA	10.555	\$21,999	\$21,999
Cash Assistance:				
School Breakfast Program	044347-05PU-07-08	10.553	113,947	113,947
National School Lunch Program	044347-LLP4-07-08	10.555	259,235	259,235
Cash Assistance Subtotal			<u>373,182</u>	<u>373,182</u>
Total Child Nutrition Cluster			<u>395,181</u>	<u>395,181</u>
<i>Direct from Federal Government.</i>				
Community Facilities Loans and Grants	NA	10.766	50,000	50,000
Distant Learning and Telemedicine Loans and Grants	OH-706-A16	10.855	6,454	6,454
Total U.S. Department of Agriculture			<u>445,181</u>	<u>451,635</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed-Through Ohio Department of Education.</i>				
Title I Grants to Local Educational Agencies	044347-C1S1-07	84.010	108,068	109,062
	044347-C1S1-08	84.010	442,289	451,153
Total Title I Grants to Local Educational Agencies			<u>550,357</u>	<u>560,215</u>
Special Education - Grants to States	044347-6BSF-07	84.027	67,937	57,384
	044347-6BSF-08	84.027	373,717	369,578
Total Special Education - Grants to States			<u>441,654</u>	<u>426,962</u>
Safe and Drug-Free Schools and Communities-State Grants	044347-DRS1-08	84.186	10,499	9,954
State Grants for Innovative Programs	044347-C2S1-08	84.298	4,172	4,172
Education Technology State Grants	044347-TJS1-07	84.318		700
	044347-TJS1-08	84.318	7,643	7,643
Total Education Technology State Grants			<u>7,643</u>	<u>8,343</u>
Improving Teacher Quality State Grants	044347-TRS1-07	84.367	16,000	19,939
	044347-TRS1-08	84.367	87,353	77,626
Total Improving Teacher Quality State Grants			<u>103,353</u>	<u>97,565</u>
Total U.S. Department of Education			<u>1,117,678</u>	<u>1,107,211</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program (Community Alternative Funding Source)	NA	93.778	9,774	
Total Federal Awards Receipts and Expenditures			<u><u>\$1,572,633</u></u>	<u><u>\$1,558,846</u></u>

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
JUNE 30, 2008**

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 - 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 C - 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 value of the commodities received.



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, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 28, 2009. 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 28, 2009.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-001 and 2008-002.

We also noted certain noncompliance or another matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 28, 2009.

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 28, 2009



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, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs 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.

As described in Finding 2008-003 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding allowable costs/cost principles applying to its major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above applying to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as defined below.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of findings and Questioned Costs as finding 2008-003 to be a significant deficiency.

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. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

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 28, 2009

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.5555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

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

FINDING NUMBER 2008-001

Noncompliance Citation

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

As of June 30, 2008, appropriations exceeded estimated resources in the following funds:

Fund	Estimated Resources	Appropriations	Variance
Miscellaneous Federal Grants	\$559,620	\$605,042	(\$45,422)
Title I Grant	548,743	557,749	(9,006)
Lunchroom	535,783	677,291	(141,508)
School Construction – Locally Funded Initiative (LFI)	1,241,054	1,770,400	(529,346)

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

FINDING NUMBER 2008-002

Noncompliance Citation

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

As of June 30, 2008, the following funds reflected expenditures which exceeded appropriations at the legal level of control:

Fund	Appropriations	Expenditures	Variance
Miscellaneous State Grants	\$207,898	\$232,916	(\$25,018)
School Construction – LFI	2,398,000	2,868,046	(470,046)
Classroom Facilities	4,672,000	13,247,029	(8,575,029)

The School District's failure to limit expenditures to the amounts appropriated could result in deficit spending.

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

Officials Response: We did not receive a response from Officials to the findings reported above.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTION COSTS FOR FEDERAL AWARDS
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Finding Number	2008-003
CFDA Title and Number	Child Nutrition Cluster, CFDA # 10.553/10.555 Special Education – Grants to States CFDA # 84.027
Federal Award Number / Year	2007 / 2008
Federal Agency	U.S. Department of Agriculture and U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs, Noncompliance, and Significant Deficiency – Allowable Costs/Cost Principles

7 CFR 3016.25(b) *Definition of program income (for the Nutrition Cluster Program)*. Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. “During the grant period” is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

All income generated by the food service program itself (including, but not limited to, regular-priced meal sales) qualifies as program income. The use of program income is dictated by OMB Circular A-87 (codified in Title 2 of the CFR, Part 225).

2 CFR Part 225, Appendix A, Section (B)(11) defines a cost objective as a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

2 CFR Part 225, Appendix B, Section 8(h)(3) states where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

2 CFR Part 225, Appendix B, Section 8(h)(4) states where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on:

- (a) More than one federal award,
- (b) A federal award and a non Federal Award,
- (c) An indirect cost activity and a direct activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)**

3. FINDINGS AND QUESTION COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2008-003 (Continued)

Questioned Costs, Noncompliance, and Significant Deficiency – Allowable Costs/Cost Principles (Continued)

2 CFR Part 225, Appendix B, paragraph 8(h)(5) states that personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

The School District charged a portion of 4 janitors' and the Food Service Coordinator's salaries to the School District's General and Food Service Funds without detailed time and effort records. Therefore, adequate documentation did not exist to support the time and effort to this program. As a result, we have identified a total of \$51,374 of known questioned costs for the 4 janitors' and the Food Service Coordinator's salary and fringe benefit allocations to the Child Nutrition Cluster grant.

Additionally, Sections 9201 or 9203 of the Elementary and Secondary Education Act (ESEA) permits school districts to consolidate Federal administrative funds for various Federal programs, including IDEA Part B (20 USC 7821 or 7823) to upgrade the entire educational program of the school. Time-and-effort requirements in schoolwide program schools vary under different circumstances:

- (1) If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, an employee who is paid with funds from that pool is not required to file a semi-annual certification because there is no distinction between staff paid with Federal funds and staff paid with State or local funds. In effect, payment from the single consolidated schoolwide pool certifies that the employee works only on activities of the schoolwide program.
- (2) If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:
 - (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
 - (b) An employee who works on multiple activities or cost objectives (i.e., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities funded from other revenue sources) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
 - (i) The Federal program; and
 - (ii) Each program or other cost objective supported either by consolidated Federal funds or other revenue sources.

MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)

3. FINDINGS AND QUESTION COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2008-003 (Continued)

Questioned Costs, Noncompliance, and Significant Deficiency – Allowable Costs/Cost Principles (Continued)

Although the School District was operating a schoolwide program, the School District had not consolidated its Federal funds with its State and local funds in a schoolwide pool. The School District charged a portion of the Food Service Coordinator's salary to the Special Education grant without detailed time and effort records. As a result, a cost allocation totaling \$6,384 for the Food Service Coordinator's salary and fringe benefits was charged to the Special Education grant without adequate documentation to support the time and effort on this program. This amount was not questioned because the total known and likely questioned costs did not exceed \$10,000 for the Special Education program.

The School District should develop internal control procedures to require the School District employees to document the time and effort of administrative costs charged to Federal programs in accordance with the ESEA and OMB Circular A-87 requirements described above. These procedures should describe time and effort requirements for school district employees who:

- Work on more than one federal award;
- Work on both a federal award and a non federal award;
- Are a part of a schoolwide program and/or cost allocation pool.

Such policies and procedures should include adequate monitoring of grant related activity by appropriate personnel and supervisor knowledgeable of applicable grants management compliance requirements.

Official's Response and Corrective Action Plan:

We were unaware that all income generated by the food service program was considered to be program income and the use of program income was dictated by OMB Circular A-87. As a result, we were unaware that ODE single-funding certificate and time and effort logs guidance was applicable to our food service program.

We will require the janitors to prepare detailed time and effort logs, if they are charging the Food Service Fund, beginning immediately. Affected employees will also complete single-funding certificates, where applicable. For fiscal year 2009, the Food Service Coordinator's salary is only charged to the Food Service Fund and has completed the single-funded certificate.

**MARTINS FERRY CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315(b)
JUNE 30, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> : <i>Explain:</i>
2007-001	Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not Corrected; Repeated as Finding No. 2008-002.



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
FEBRUARY 24, 2009