



**Auditor of State
Betty Montgomery**

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mount Gilead Exempted Village School District
Morrow County
145½ North Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Morrow County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2005, the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-002, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the 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.



Betty Montgomery
Auditor of State

February 1, 2006

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$337,205 which represents a 7.43% increase from 2004.
- General revenues accounted for \$10,681,193 in revenue or 83.00% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,188,015 or 17.00% of total revenues of \$12,869,208.
- The District had \$12,532,003 in expenses related to governmental activities; \$2,188,015 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$10,681,193 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$10,407,735 in revenues and other financing sources, and \$10,298,162 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$109,573 from \$138,876 to \$248,449.
- The debt service fund had \$2,841,037 in revenues and other financing sources and \$2,712,282 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$128,755 from \$733,702 to \$862,457.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the 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 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government 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 basic financial statements.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical, dental and vision self-insurance.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 6,651,936	\$ 6,244,981
Capital assets, net	<u>13,304,607</u>	<u>13,617,280</u>
Total assets	<u>19,956,543</u>	<u>19,862,261</u>
<u>Liabilities</u>		
Current liabilities	4,599,348	4,631,033
Long-term liabilities	<u>10,480,114</u>	<u>10,691,352</u>
Total liabilities	<u>15,079,462</u>	<u>15,322,385</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,078,117	5,142,295
Restricted	1,103,890	892,841
Unrestricted (deficit)	<u>(1,304,926)</u>	<u>(1,495,260)</u>
Total net assets	<u>\$ 4,877,081</u>	<u>\$ 4,539,876</u>

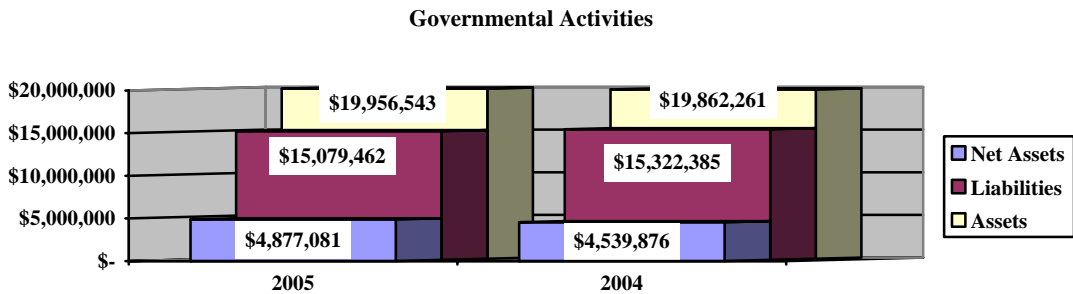
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$4,877,081. Of this total, \$1,103,890 is restricted in use.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At year-end, capital assets represented 66.67% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$5,078,117. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,103,890, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$1,304,926.



The table below shows the change in net assets for fiscal year 2005 and 2004.

	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,199,884	\$ 1,020,157
Operating grants and contributions	988,131	906,854
General revenues:		
Property taxes	3,358,869	3,338,795
Income taxes	860,219	791,769
Grants and entitlements	6,095,451	5,917,467
Investment earnings	41,870	22,740
Other	324,784	402,018
Total revenues	<u>12,869,208</u>	<u>12,399,800</u>

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	Change in Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,492,268	\$ 4,827,673
Special	1,214,258	1,156,406
Vocational	309,136	395,274
Other	1,118,262	669,217
Support services:		
Pupil	418,849	521,871
Instructional staff	804,635	766,717
Board of education	60,777	56,929
Administration	844,428	816,695
Fiscal	363,233	331,270
Operations and maintenance	1,317,009	1,420,881
Pupil transportation	504,398	384,837
Central	16,450	7,693
Operations of non-instructional services:		
Food service operations	323,355	376,287
Other non-instructional services	1,223	5,463
Extracurricular activities	306,913	349,493
Intergovernmental pass-through	-	606
Interest and fiscal charges	<u>436,809</u>	<u>445,803</u>
Total expenses	<u>12,532,003</u>	<u>12,533,115</u>
Change in net assets	337,205	(133,315)
Net assets at beginning of year	<u>4,539,876</u>	<u>4,673,191</u>
Net assets at end of year	<u>\$ 4,877,081</u>	<u>\$ 4,539,876</u>

Governmental Activities

Net assets of the District's governmental activities increased \$337,205. Total governmental expenses of \$12,532,003 were offset by program revenues of \$2,188,015 and general revenues of \$10,681,193. Program revenues supported 17.46% of the total governmental expenses.

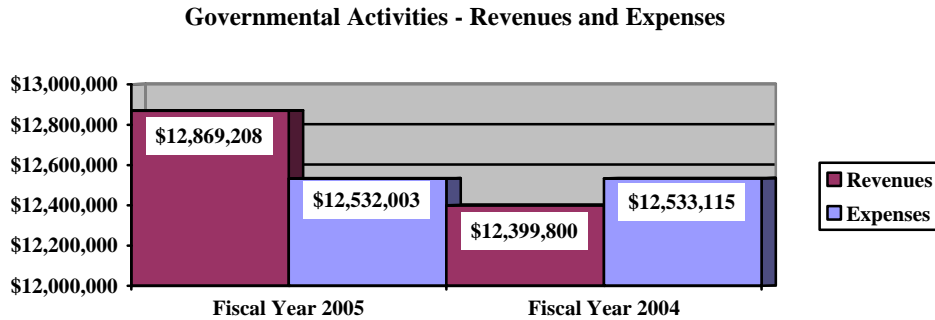
The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 87.83% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,133,924 or 56.93% of total governmental expenses for fiscal 2005.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The table below shows the cost of program services for 2005 and 2004.

Governmental Activities

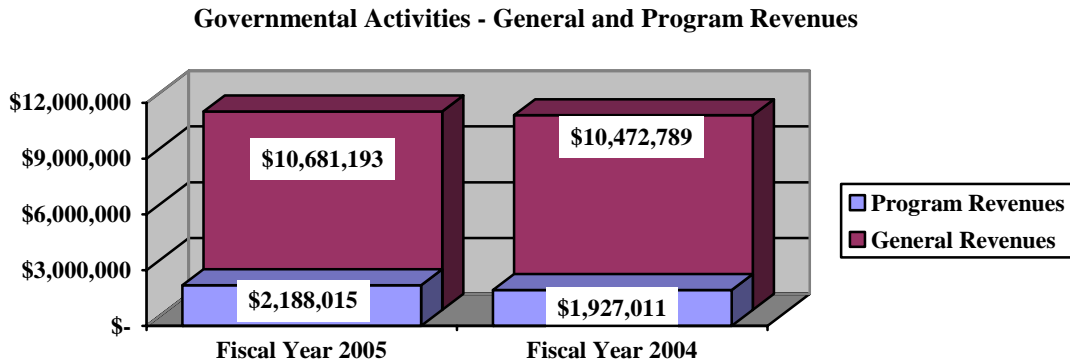
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 4,492,268	\$ 3,396,058	\$ 4,827,673	\$ 3,979,765
Special	1,214,258	875,630	1,156,406	888,372
Vocational	309,136	309,136	395,274	395,274
Other	1,118,262	1,118,262	669,217	669,217
Support services:				
Pupil	418,849	418,690	521,871	504,374
Instructional staff	804,635	620,031	766,717	585,067
Board of education	60,777	60,777	56,929	56,929
Administration	844,428	748,146	816,695	726,226
Fiscal	363,233	361,064	331,270	329,148
Operations and maintenance	1,317,009	1,304,061	1,420,881	1,415,929
Pupil transportation	504,398	504,058	384,837	383,981
Central	16,450	11,627	7,693	7,693
Operations of non-instructional services:				
Food service operations	323,355	16,749	376,287	20,574
Other non-instructional services	1,223	153	5,463	(1,607)
Extracurricular activities	306,913	162,737	349,493	198,753
Intergovernmental	-	-	606	606
Interest and fiscal charges	436,809	436,809	445,803	445,803
Total expenses	\$ 12,532,003	\$ 10,343,988	\$ 12,533,115	\$ 10,606,104

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 79.89% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.54%. The District's taxpayers, and the State of Ohio, as a whole, are by far the primary supports for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,191,598, which is higher than last year's total of \$917,155. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase	Percentage Change
General	\$ 248,449	\$ 138,876	\$ 109,573	78.90 %
Debt Service	862,457	733,702	128,755	17.55 %
Other Governmental	<u>80,692</u>	<u>44,577</u>	<u>36,115</u>	81.02 %
Total	<u>\$ 1,191,598</u>	<u>\$ 917,155</u>	<u>\$ 274,443</u>	29.92 %

General Fund

The District's general fund balance increased \$109,573 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to increasing revenues. Revenues exceeded expenditures for fiscal year 2005 by \$79,468. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 3,288,889	\$ 3,319,780	\$ (30,891)	(0.93) %
Tuition	714,384	552,013	162,371	29.41 %
Earnings on investments	40,334	20,296	20,038	98.73 %
Intergovernmental	5,995,356	5,782,994	212,362	3.67 %
Other revenues	<u>337,732</u>	<u>394,495</u>	<u>(56,763)</u>	(14.39) %
 Total	 <u>\$ 10,376,695</u>	 <u>\$ 10,069,578</u>	 <u>\$ 307,117</u>	 3.05 %
<u>Expenditures</u>				
Instruction	\$ 6,175,725	\$ 6,154,121	\$ 21,604	0.35 %
Support services	3,935,144	3,858,108	77,036	2.00 %
Extracurricular activities	155,318	175,441	(20,123)	(11.47) %
Capital outlay	31,040	-	31,040	100.00
Debt service	<u>-</u>	<u>22,969</u>	<u>(22,969)</u>	(100.00) %
 Total	 <u>\$ 10,297,227</u>	 <u>\$ 10,210,639</u>	 <u>\$ 86,588</u>	 0.85 %

Debt Service Fund

The debt service fund had \$2,841,037 in revenues and other financing sources and \$2,712,282 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$128,755 from \$733,702 to \$862,457.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,193,100, and final budgeted revenues and other financing sources were \$10,263,393. Actual revenues and other financing sources for fiscal 2005 was \$10,475,450. This represents a \$212,057 increase over final budgeted revenues.

General fund original appropriations were \$10,398,328 and final appropriations were 10,399,387. The actual budget basis expenditures for fiscal year 2005 totaled \$10,395,514, which was \$3,873 less than the final budget appropriations.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$13,304,607 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 26,121	\$ 26,121
Land improvements	129,983	142,362
Building and improvements	12,080,749	12,289,993
Furniture and equipment	818,389	900,104
Vehicles	249,365	258,700
Total	\$ 13,304,607	\$ 13,617,280

The overall decrease in capital assets of \$312,673 is due to depreciation expense of \$398,713 exceeding capital outlays of \$86,040 in the fiscal year.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$7,786,215 in general obligation bonds and \$2,000,000 in a bond anticipation note outstanding. Of this total, \$2,285,000 is due within one year and \$7,501,215 is due within greater than one year. The following table summarizes the bonds and note outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 7,786,215	\$ 8,040,199
Bond anticipation note	2,000,000	2,000,000
Total	\$ 9,786,215	\$ 10,040,199

At June 30, 2005, the District's overall legal debt margin was \$2,385,438 and an unvoted debt margin of \$125,658.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Current Financial Related Activities

The District's financial future certainly has its challenges. The challenges are at both the local and state levels. Local and state challenges will continue with the District's heavy reliance on both for operational funds. Currently, the local and state tax dollars support forty and sixty percent of the operations respectively.

Although the District relies heavily on its property taxpayers to support operations, the support for the school is very strong as evidenced by recent levy outcomes. Since 1999 the local taxpayers have supported the District by passing the following:

- 1999 – Renewal of a .75% Income Tax levy for a period of five years.
- 1999 – 4.7 mill Bond Issue in the principal amount of \$9,000,000.
- 2000 – Replacement of a 0.5 mill Permanent Improvement levy.
- 2003 – Renewal of a .75% Income Tax levy for a period of five years.
- 2004 – Replacement of a 0.75 mill Permanent Improvement levy.

These additional revenues supported by the bond and permanent improvement levies cost local taxpayers annually approximately \$720,000 and \$40,000 respectively.

The community last passed a new operating levy May 1994, for a period of five years. This Income Tax levy has subsequently been renewed twice. This is currently the only fixed term operating levy the District collects.

The District's five-year forecast is certainly challenging. In efforts to avoid any projected deficit, the District has implemented approximately seven hundred thousand dollars in budget cuts over the last two school years and is looking to cut an additional three hundred thousand dollars out of the upcoming school year. In addition, the School District has placed a new .75% Income Tax levy on the May 2005 ballot in an effort to limit any further academic cuts.

The following factors are causing the District to make the above-mentioned budgetary cuts and return to the voters for additional operating monies:

- Bankruptcy and closing of local manufacturing plant.
- State Legislators phasing out inventory portion of Personal Property Tax.
- State Legislators phasing out Personal Property Tax Exemption.
- State Legislators reducing the State Formula Per Pupil Funding increase.
- Reduction in investment income due to reduction in market rates.
- Increase in Health Insurance premiums
- Utility cost increase, primarily due to natural gas prices.
- Loss of revenues to community schools.
- Loss of revenues through open enrollment.
- Increase special education costs due to additional students.

**MT. GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education funding system, one that was neither 'adequate' nor 'equitable'. Since 1997 the State has directed its additional financial support toward School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'adequate' nor 'equitable'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding system. The decision identified aspects of the current plan that require modification. In general, it was expected that the decision would result in an increase in overall State funding for education. On December 11, 2002, the Ohio Supreme Court issued another opinion regarding the State's school funding plan. The decision reaffirmed the earlier decisions that Ohio's current school funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what, if any, effect these decisions will have on its future State funding, or financial operation.

The District has not anticipated any meaningful growth in State revenue.

As a result of the challenges mentioned above, it is imperative the District's management continue to carefully and prudently plan the future of this District in order to provide the necessary resources to meet the students need over the next few years.

Contacting the District Treasurer

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the School District's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Jill Novak, Treasurer, at Mt. Gilead Exempted Village School District, 145 ½ North Cherry Street, Mt. Gilead, OH 43338.

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Primary Government	Component Units	
	Governmental Activities	GOAL Digital Academy	Tomorrow Center
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,591,787	\$ 169,420	\$ 161,396
Cash with fiscal agent.	177,911	-	-
Receivables:			
Taxes	4,691,485	-	-
Intergovernmental	97,824	-	99,858
Due from component units.	70,058	-	-
Prepayments	12,070	-	1,867
Materials and supplies inventory	10,801	-	-
Capital assets:			
Land	26,121	-	-
Depreciable capital assets, net	13,278,486	127,087	147,320
Total capital assets, net.	<u>13,304,607</u>	<u>127,087</u>	<u>147,320</u>
Total assets.	<u>19,956,543</u>	<u>296,507</u>	<u>410,441</u>
Liabilities:			
Accounts payable.	7,543	148	-
Accrued wages and benefits	988,945	-	-
Pension obligation payable.	260,758	-	-
Intergovernmental payable	82,545	-	-
Due to primary government.	-	29,156	40,902
Deferred revenue	3,101,823	-	-
Accrued interest payable	30,051	-	-
Claims payable	127,683	-	-
Long-term liabilities:			
Due within one year.	2,344,920	-	-
Due within more than one year	<u>8,135,194</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>15,079,462</u>	<u>29,304</u>	<u>40,902</u>
Net Assets:			
Invested in capital assets, net of related debt.	5,078,117	127,087	147,320
Restricted for:			
Capital projects	67,227	-	-
Debt service.	966,246	-	-
State funded programs.	2,924	60	3,676
Federally funded programs.	9,069	-	-
Student activities.	30,464	-	-
Other purposes	27,960	-	262
Unrestricted (deficit)	<u>(1,304,926)</u>	<u>140,056</u>	<u>218,281</u>
Total net assets	<u>\$ 4,877,081</u>	<u>\$ 267,203</u>	<u>\$ 369,539</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenues		Primary Government	Component Units	
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	GOAL Digital Academy	Tomorrow Center
Governmental activities:						
Instruction:						
Regular	\$ 4,492,268	\$ 747,640	\$ 348,570	\$ (3,396,058)	\$ -	\$ -
Special	1,214,258	-	338,628	(875,630)	-	-
Vocational	309,136	-	-	(309,136)	-	-
Other	1,118,262	-	-	(1,118,262)	-	-
Support services:						
Pupil.	418,849	-	159	(418,690)	-	-
Instructional staff	804,635	-	184,604	(620,031)	-	-
Board of education	60,777	-	-	(60,777)	-	-
Administration.	844,428	92,636	3,646	(748,146)	-	-
Fiscal.	363,233	-	2,169	(361,064)	-	-
Operations and maintenance	1,317,009	12,948	-	(1,304,061)	-	-
Pupil transportation.	504,398	-	340	(504,058)	-	-
Central	16,450	-	4,823	(11,627)	-	-
Operation of non-instructional services:						
Food service operations	323,355	202,484	104,122	(16,749)	-	-
Other non-instructional services	1,223	-	1,070	(153)	-	-
Extracurricular activities.	306,913	144,176	-	(162,737)	-	-
Interest and fiscal charges	436,809	-	-	(436,809)	-	-
Total governmental activities	<u>12,532,003</u>	<u>1,199,884</u>	<u>988,131</u>	<u>(10,343,988)</u>	<u>-</u>	<u>-</u>
Component Units:						
GOAL Digital Academy	337,681	-	5,925	-	(331,756)	-
Tomorrow Center	560,336	2,844	6,243	-	-	(551,249)
Total component units.	<u>898,017</u>	<u>2,844</u>	<u>12,168</u>	<u>-</u>	<u>(331,756)</u>	<u>(551,249)</u>
Totals	<u>\$ 13,430,020</u>	<u>\$ 1,202,728</u>	<u>\$ 1,000,299</u>	<u>(10,343,988)</u>	<u>(331,756)</u>	<u>(551,249)</u>
General Revenues:						
Property taxes levied for:						
General purposes				2,519,773	-	-
Debt service.				761,815	-	-
Capital projects				77,281	-	-
School district income tax				860,219	-	-
Grants and entitlements not restricted						
to specific programs.				6,095,451	431,794	560,791
Investment earnings				41,870	526	887
Miscellaneous				324,784	8,080	292
Total general revenues.				<u>10,681,193</u>	<u>440,400</u>	<u>561,970</u>
Change in net assets				337,205	108,644	10,721
Net assets at beginning of year (Restated, note 3)				<u>4,539,876</u>	<u>158,559</u>	<u>358,818</u>
Net assets at end of year				<u>\$ 4,877,081</u>	<u>\$ 267,203</u>	<u>\$ 369,539</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 647,283	\$ 757,477	\$ 159,067	\$ 1,563,827
Receivables:				
Taxes	3,685,343	922,243	83,899	4,691,485
Intergovernmental	-	-	97,824	97,824
Due from component units.	70,058	-	-	70,058
Due from other funds	58,747	-	-	58,747
Prepayments	12,070	-	-	12,070
Materials and supplies inventory	-	-	10,801	10,801
Restricted assets:				
Equity in pooled cash and cash equivalents	27,960	-	-	27,960
Total assets	<u>\$ 4,501,461</u>	<u>\$ 1,679,720</u>	<u>\$ 351,591</u>	<u>\$ 6,532,772</u>
Liabilities:				
Accounts payable	\$ 7,543	\$ -	\$ -	\$ 7,543
Accrued wages and benefits	887,085	-	101,860	988,945
Compensated absences payable	13,597	-	-	13,597
Pension obligation payable.	237,223	-	23,535	260,758
Intergovernmental payable.	74,794	330	7,421	82,545
Due to other funds	-	-	58,747	58,747
Deferred revenue.	3,032,770	816,933	79,336	3,929,039
Total liabilities	<u>4,253,012</u>	<u>817,263</u>	<u>270,899</u>	<u>5,341,174</u>
Fund Balances:				
Reserved for encumbrances	96,435	-	729	97,164
Reserved for materials and supplies inventory.	-	-	10,801	10,801
Reserved for prepayments	12,070	-	-	12,070
Reserved for property tax unavailable for appropriation	310,586	99,407	10,884	420,877
Reserved for textbooks.	27,960	-	-	27,960
Reserved for debt service.	-	763,050	-	763,050
Unreserved, undesignated (deficit), reported in:				
General fund	(198,602)	-	-	(198,602)
Special revenue funds.	-	-	17,110	17,110
Capital projects funds.	-	-	41,168	41,168
Total fund balances	<u>248,449</u>	<u>862,457</u>	<u>80,692</u>	<u>1,191,598</u>
Total liabilities and fund balances	<u>\$ 4,501,461</u>	<u>\$ 1,679,720</u>	<u>\$ 351,591</u>	<u>\$ 6,532,772</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total governmental fund balances		\$	1,191,598
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			13,304,607
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	820,249	
Intergovernmental revenue		6,967	
Total			827,216
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			50,228
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(30,051)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		649,262	
Bond anticipation notes payable		2,000,000	
General obligation bonds payable		7,786,215	
Capital lease		31,040	
Total			(10,466,517)
Net assets of governmental activities		\$	4,877,081

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,288,889	\$ 748,998	\$ 71,016	\$ 4,108,903
Tuition.	714,384	-	-	714,384
Charges for services.	-	-	202,484	202,484
Earnings on investments.	40,334	-	-	40,334
Extracurricular.	-	-	229,676	229,676
Classroom materials and fees	-	-	33,256	33,256
Other local revenues.	337,732	-	24,934	362,666
Intergovernmental - State.	5,995,356	92,039	225,840	6,313,235
Intergovernmental - Federal	-	-	752,340	752,340
Total revenue	<u>10,376,695</u>	<u>841,037</u>	<u>1,539,546</u>	<u>12,757,278</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,945,783	-	376,680	4,322,463
Special.	823,883	-	338,479	1,162,362
Vocational.	287,797	-	-	287,797
Other.	1,118,262	-	-	1,118,262
Support services:				
Pupil.	419,497	-	479	419,976
Instructional staff	620,121	-	182,665	802,786
Board of education	60,777	-	-	60,777
Administration.	741,062	-	97,391	838,453
Fiscal	340,944	20,526	2,183	363,653
Operations and maintenance.	1,252,378	-	-	1,252,378
Pupil transportation	488,738	-	320	489,058
Central.	11,627	-	4,823	16,450
Operation of non-instructional services:				
Food service operations	-	-	313,198	313,198
Other non-instructional services.	-	-	1,223	1,223
Extracurricular activities.	155,318	-	130,669	285,987
Facilities acquisition and construction	-	-	56,256	56,256
Capital outlay.	31,040	-	-	31,040
Debt service:				
Principal retirement	-	2,275,000	-	2,275,000
Interest and fiscal charges	-	416,756	-	416,756
Total expenditures	<u>10,297,227</u>	<u>2,712,282</u>	<u>1,504,366</u>	<u>14,513,875</u>
Excess of revenues over (under) expenditures.	<u>79,468</u>	<u>(1,871,245)</u>	<u>35,180</u>	<u>(1,756,597)</u>
Other financing sources (uses):				
Transfers in	-	-	935	935
Transfers (out)	(935)	-	-	(935)
Issuance of notes	-	2,000,000	-	2,000,000
Capital lease transaction	31,040	-	-	31,040
Total other financing sources (uses)	<u>30,105</u>	<u>2,000,000</u>	<u>935</u>	<u>2,031,040</u>
Net change in fund balances	109,573	128,755	36,115	274,443
Fund balances				
at beginning of year (restated, see note 3)	138,876	733,702	44,577	917,155
Fund balances at end of year.	<u>\$ 248,449</u>	<u>\$ 862,457</u>	<u>\$ 80,692</u>	<u>\$ 1,191,598</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$ 274,443

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

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

Capital asset additions	\$ 86,040	
Current year depreciation	<u>(398,713)</u>	
Total		(312,673)

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

Delinquent property taxes	110,185	
Intergovernmental	<u>209</u>	
Total		110,394

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 2,275,000

The issuance of capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (31,040)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. Additional interest is reported on the statement of activities due to the following items:

Increase in accrued interest	963	
Accreted interest	<u>(21,016)</u>	
Total		(20,053)

The issuance of notes is recorded as revenue in the funds, however, on the statement of activities, it is not reported as revenues as they increase liabilities on the statement of net assets. (2,000,000)

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (6,061)

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities. 47,195

Change in net assets of governmental activities \$ 337,205

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,358,400	\$ 3,358,400	\$ 3,388,579	\$ 30,179
Tuition.	558,000	628,293	714,384	86,091
Earnings on investments.	20,000	20,000	39,399	19,399
Other local revenues	331,500	331,500	330,568	(932)
Intergovernmental - State	5,910,200	5,910,200	5,995,356	85,156
Total revenue	<u>10,178,100</u>	<u>10,248,393</u>	<u>10,468,286</u>	<u>219,893</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,119,535	4,119,950	3,914,929	205,021
Special.	972,717	972,829	863,375	109,454
Vocational.	321,703	321,734	290,465	31,269
Other.	693,948	694,014	1,148,262	(454,248)
Support services:				
Pupil.	462,588	462,632	443,555	19,077
Instructional staff	586,250	586,308	620,940	(34,632)
Board of education	72,171	72,178	58,194	13,984
Administration.	731,054	731,135	797,458	(66,323)
Fiscal	411,370	411,411	345,237	66,174
Operations and maintenance.	1,324,948	1,325,084	1,255,820	69,264
Pupil transportation	473,888	473,933	489,732	(15,799)
Central.	29,996	30,000	11,626	18,374
Extracurricular activities.	198,160	198,179	155,921	42,258
Total expenditures	<u>10,398,328</u>	<u>10,399,387</u>	<u>10,395,514</u>	<u>3,873</u>
Excess of revenues over (under) expenditures.	<u>(220,228)</u>	<u>(150,994)</u>	<u>72,772</u>	<u>223,766</u>
Other financing sources:				
Refund of prior year expenditure.	<u>15,000</u>	<u>15,000</u>	<u>7,164</u>	<u>(7,836)</u>
Total other financing sources	<u>15,000</u>	<u>15,000</u>	<u>7,164</u>	<u>(7,836)</u>
Net change in fund balance	(205,228)	(135,994)	79,936	215,930
Fund balance at beginning of year.	517,462	517,462	517,462	-
Prior year encumbrances appropriated	<u>40,154</u>	<u>40,154</u>	<u>40,154</u>	<u>-</u>
Fund balance at end of year	<u>\$ 352,388</u>	<u>\$ 421,622</u>	<u>\$ 637,552</u>	<u>\$ 215,930</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005**

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Cash with fiscal agent	\$ 177,911
Total assets	<u>177,911</u>
Liabilities:	
Current:	
Claims payable	127,683
Total liabilities	<u>127,683</u>
Net assets:	
Unrestricted.	<u>50,228</u>
Total net assets	<u><u>\$ 50,228</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 1,879,169
Total operating revenues.	<u>1,879,169</u>
Operating expenses:	
Contractual services.	199,092
Claims	<u>1,634,418</u>
Total operating expenses.	<u>1,833,510</u>
Operating income	<u>45,659</u>
Nonoperating revenues:	
Interest revenue	<u>1,536</u>
Total nonoperating revenues.	<u>1,536</u>
Change in net assets	47,195
Net assets at beginning of year.	<u>3,033</u>
Net assets at end of year	<u><u>\$ 50,228</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 1,879,169
Cash payments for contractual services.	(199,092)
Cash payments for claims	<u>(1,817,015)</u>
Net cash used in operating activities	<u>(136,938)</u>
Cash flows from investing activities:	
Interest received	<u>1,536</u>
Net cash provided by investing activities	<u>1,536</u>
Net decrease in cash and cash equivalents	(135,402)
Cash and cash equivalents at beginning of year . . .	<u>313,313</u>
Cash and cash equivalents at end of year.	<u><u>\$ 177,911</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 45,659
Changes in assets and liabilities:	
Decrease in claims payable	<u>(182,597)</u>
Net cash used in operating activities	<u><u>\$ (136,938)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 27,762</u>
Total assets	<u><u>\$ 27,762</u></u>
Liabilities:	
Due to students	<u>\$ 27,762</u>
Total liabilities	<u><u>\$ 27,762</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mount Gilead Exempted Village School District (the "District") is located in Morrow County, including all of the Village of Mount Gilead, Ohio, and portions of surrounding townships. The District serves an area of approximately 68 square miles.

The District was established in 1873 through the consolidation of existing land areas and school districts, and in 1960 the Edison School District also became part of the Mount Gilead Exempted Village School District. The District is organized under Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District ranks as the 393rd largest by enrollment among the 614 public school districts in the state, and the 2nd largest in Morrow County. It currently operates 3 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 57 non-certified and 103 certified employees to provide services to approximately 1,408 students in grades K through 12 and various community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund, provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has two component units described below. Additional organizations are also described due to their relationship to the District.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

DISCRETELY PRESENTED COMPONENT UNITS

The GOAL Digital Academy Community School (GDA)

The GDA is a legally separate, conversion community school, served by a Board of Directors. The GDA provides students within the District and throughout Ohio with curriculum and instruction via distance learning technology. The Board of Directors consists of the District's Superintendent, Treasurer, Special Education Director, Technology Director, and two additional Board members appointed by the District. The District is the sponsoring District of the GDA under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the GDA and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the GDA, the GDA's purpose of servicing the students of the District, and the relationship between the Board of Education of the District and the Board of Directors of the GDA, the GDA is reflected as a component unit of the District. It is reported separately to emphasize that it is legally separate from the District. The GDA paid the District \$287,256 for contract services provided by the District during fiscal year 2005. Separately issued financial statements for the GDA can be obtained from the Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

The Tomorrow Center Community School (Center)

The Center is a legally separate, conversion community school, serviced by a Board of Directors. The Center focuses on serving students at risk of or already in therapeutic residential placement, and provides an alternative to the traditional educational setting. The Center was organized under Ohio Law Section 3314, and the District is the sponsor. The Center was founded utilizing existing programs within the existing structure of the District. The employees of the Center remain part of the collective bargaining unit of the District. Based on the significant services provided by the District to the Center and the Center's purpose of serving the students within the District, exclusion would cause the reporting entity's financial statements to be misleading or incomplete; as a result, the Center is reflected as a component unit of the District. The Center is reported separately to emphasize that it is legally separate from the District. The Center paid the District \$409,581 for contract services provided by the District during fiscal year 2005. Separately issued financial statements for the Center can be obtained from the Treasurer of the Mt. Gilead Exempted Village School District, 145½ North Cherry Street, Mt. Gilead, Ohio 43338.

JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association (TRECA)

TRECA is a jointly governed organization among 21 school districts. TRECA was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. TRECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information is available from Mike Carder, Director, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Tri Rivers Joint Vocational School

The Tri Rivers Joint Vocational School (the "JVS") is a distinct political subdivision of the State of Ohio. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302.

RELATED ORGANIZATION

Mount Gilead Public Library

The Mount Gilead Public Library (the "Library") is a related organization to the District. The School Board members are responsible for appointing the trustees of the Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and has issued tax related debt on behalf of the Library, its role is limited to a ministerial function. The Library may issue debt and determines its own budget. Library general obligation debt currently serviced by the District is described in Note 11.

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool. See Note 12 for further information on the Plan.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

FIDUCIARY FUNDS

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

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 level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. 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 during the year, including all supplemental appropriations.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$40,334, which includes \$22,304 assigned from other funds (not including interest earned on cash with fiscal agent).

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District participates in the OME-RESA Insurance Consortium for self-insurance. These monies are held separate from the District's central bank account and are reflected on the financial statements as "cash with fiscal agent".

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed/expended when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the District maintained a capitalization threshold of \$5,000. 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. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	15 - 20 years
Buildings and improvements	20 - 70 years
Furniture and equipment	5 - 15 years
Vehicles	8 years

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Interfund Balances

On fund financial statements, receivables and payables resulting from negative cash balances in certain funds (see Note 3.B and Note 5.B) are classified as "due to/due from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least five years of service; or twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund 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. Bonds are recognized as a liability on the fund financial statements when due.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, textbooks, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Parochial Schools

Mount Gilead Christian School operates within the District's boundaries. Current state legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The receipt and fiduciary responsibility of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Estimates

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

R. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

S. Interfund Activity

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

T. 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. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 217,577	\$ 733,702	\$ 60,549	\$ 1,011,828
GASB Technical Bulletin No. 2004-2	<u>(78,701)</u>	<u>-</u>	<u>(15,972)</u>	<u>(94,673)</u>
Restated Fund Balances, June 30, 2004	<u>\$ 138,876</u>	<u>\$ 733,702</u>	<u>\$ 44,577</u>	<u>\$ 917,155</u>

B. Correction of an Error

Beginning net assets in Governmental Activities were restated as follows to reflect previously unrecorded accretion related to capital appreciation bonds issued as part of the District's School Improvement Bonds:

	<u>Governmental Activities</u>
Net Assets, June 30, 2004	\$ 4,896,229
Correction for unrecorded accretion	<u>(356,353)</u>
Restated Net Assets, June 30, 2004	<u><u>\$ 4,539,876</u></u>

C. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Auxiliary Services	\$ 632
DPIA	3,908
Ohio SchoolNet	42
Vocational Education Enhancements	4,296
Alternative Recovery School	6,033
Title I	35,423
Title VI	1,213
Title VI - B	19,342
Title IV	12,871

Auxiliary Services, DPIA, Ohio SchoolNet, Vocational Education Enhancements, Alternative Recovery School, Title I and Title VI funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities. The Title VI-B and Title IV grant funds had cash basis deficits of \$39,154 and \$19,593, respectively, at year-end contrary to Ohio Revised Code Section 5705.10. An interfund liability has been recorded to cover these negative cash balances (see Note 5.B).

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 of Education 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 moneys 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.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$2,475 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash with Fiscal Agent

At fiscal year-end, the District had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency Self-funded Insurance Program (the "Program") of \$177,911. This money is held by the Program's fiscal agent in a pooled account which is representative of numerous entities and therefore, cannot be classified by risk. This amount is not part of the internal cash pool and is reported on the financial statements as "Cash with Fiscal Agent".

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$1,519,342. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,684,704 of the District's bank balance of \$1,784,704 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 97,732	\$ 97,732

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 97,732	100.00

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,519,342
Investments	97,732
Cash on hand	2,475
Cash with fiscal agent	177,911
Total	<u>\$ 1,797,460</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,769,698
Agency funds	27,762
Total	<u>\$ 1,797,460</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 935

Transfers are used to move unrestricted revenues of the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

Interfund transfers between governmental funds have been eliminated for reporting on the government-wide statement of activities.

- B.** At June 30, 2005, certain funds had negative cash balances. These fund overdrafts of the internal investment pool have been reported as fund liabilities of the respective funds.

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 58,747	\$ -
<u>Other Governmental Funds</u>		
Title VI - B	-	39,154
Title IV	-	19,593
Total	<u>\$ 58,747</u>	<u>\$ 58,747</u>

Amounts due to/from other funds between governmental funds have been eliminated for reporting on the government-wide statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004 the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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

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

The amount available as an advance at June 30, 2005 was \$310,586 in the general fund, \$10,884 in the Permanent Improvement capital projects fund, and \$99,407 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$374,142 in the general fund, \$7,993 in the Permanent Improvement capital projects fund and \$120,743 in the debt service 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 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 109,293,640	87.97	\$ 110,784,790	88.16
Public utility personal	7,666,480	6.17	7,068,260	5.63
Tangible personal property	<u>7,275,380</u>	<u>5.86</u>	<u>7,804,680</u>	<u>6.21</u>
Total	<u>\$ 124,235,500</u>	<u>100.00</u>	<u>\$ 125,657,730</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 42.80		\$ 42.80	
Permanent Improvement	0.50		0.75	
Debt Service	5.50		5.50	

NOTE 7 - SCHOOL DISTRICT INCOME TAX

On May 4, 1999, voters of the District passed a 3/4% income tax, effective for five years. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal 2005, credited to the general fund, was \$860,219.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, intergovernmental grants and entitlements, and amounts due from component units. 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. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 4,691,485
Intergovernmental	97,824
Due From Component Units	<u>70,058</u>
Total	<u>\$ 4,859,367</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 9 - CAPITAL ASSETS

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

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 26,121	\$ -	\$ -	\$ 26,121
Total capital assets, not being depreciated	<u>26,121</u>	<u>-</u>	<u>-</u>	<u>26,121</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	349,214	-	-	349,214
Buildings and improvements	14,439,301	-	-	14,439,301
Furniture and equipment	1,421,278	31,040	-	1,452,318
Vehicles	<u>727,323</u>	<u>55,000</u>	<u>-</u>	<u>782,323</u>
Total capital assets, being depreciated	<u>16,937,116</u>	<u>86,040</u>	<u>-</u>	<u>17,023,156</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(206,852)	(12,379)	-	(219,231)
Buildings and improvements	(2,149,308)	(209,244)	-	(2,358,552)
Furniture and equipment	(521,174)	(112,755)	-	(633,929)
Vehicles	<u>(468,623)</u>	<u>(64,335)</u>	<u>-</u>	<u>(532,958)</u>
Total accumulated depreciation	<u>(3,345,957)</u>	<u>(398,713)</u>	<u>-</u>	<u>(3,744,670)</u>
Governmental activities capital assets, net	<u>\$ 13,617,280</u>	<u>\$ (312,673)</u>	<u>\$ -</u>	<u>\$ 13,304,607</u>

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 259,298
Special	2,296
Vocational	9,113
 <u>Support Services:</u>	
Pupil	1,636
Instructional staff	6,204
Administration	8,717
Operations and maintenance	11,348
Pupil transportation	67,211
Extracurricular activities	20,926
Food service operations	<u>11,964</u>
 Total depreciation expense	 <u><u>\$ 398,713</u></u>

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into a capitalized lease for band equipment. This lease agreement met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of band equipment have been capitalized in the amount of \$31,040. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments will be made from the general fund, however, none were made during the fiscal year.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Band Equipment</u>
2006	\$ 7,089
2007	7,088
2008	7,088
2009	7,089
2010	<u>7,089</u>
Total minimum lease payments	35,443
Less: amount representing interest	<u>(4,403)</u>
Total	<u><u>\$ 31,040</u></u>

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS

- A.** The library bonds outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these bonds are accounted as long-term liabilities. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a .80 mill bonded debt (library) tax levy.
- B.** On September 26, 2000, the District issued \$6,999,986 in general obligation bonds (Series 2000, School Facilities Improvement Bonds). These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted as long-term liability. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 4.70 (average) mill bonded debt tax levy.

This issue is comprised of current interest term bonds, par value \$1,900,000, current interest serial bonds, par value \$5,090,000, and capital appreciation bonds, par value \$680,000. The capital appreciation bonds mature December 1, 2014 and 2015 (effective interest 33.404% and 33.408%, respectively), at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported at June 30, 2005 was \$9,986. Total accreted interest of \$396,229 has been included at June 30, 2005.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

- C.** On September 21, 2004, the District re-issued a \$2,000,000 bond anticipation note, this note was issued in anticipation of bond proceeds from a \$9,000,000 issue approved by the voters of the District in the November, 1999 general election. The note matures on September 20, 2005, and bears an annual interest rate of 2.63%. Proceeds from this note issuance were used to repay the prior bond anticipation note. The note is a general obligation of the District, for which the District's full faith and credit are pledged for repayment.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation bonds:					
Series 1998, library various, 12/01/08 maturity	\$ 1,190,000	\$ -	\$ (55,000)	\$ 1,135,000	\$ 60,000
Series 2000, improvement 4.82%, 12/01/24 maturity	6,465,000	-	(220,000)	6,245,000	225,000
Series 2000, improvement capital appreciation bonds 33.404% to 33.408% (average effective) 12/01/14 & 12/01/15 maturity	9,986	-	-	9,986	-
Series 2000, improvement capital appreciation bonds accrued interest	<u>375,213</u>	<u>21,016</u>	<u>-</u>	<u>396,229</u>	<u>-</u>
Total G.O. bonds	<u>8,040,199</u>	<u>21,016</u>	<u>(275,000)</u>	<u>7,786,215</u>	<u>285,000</u>
Notes payable:					
Bond anticipation note	<u>2,000,000</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total notes payable	<u>2,000,000</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>2,000,000</u>
Other obligations:					
Capital lease obligation	-	31,040	-	31,040	5,309
Compensated absences	<u>651,153</u>	<u>89,411</u>	<u>(77,705)</u>	<u>662,859</u>	<u>54,611</u>
Total other obligations	<u>651,153</u>	<u>120,451</u>	<u>(77,705)</u>	<u>693,899</u>	<u>59,920</u>
Total long-term obligations, governmental activities	<u>\$ 10,691,352</u>	<u>\$ 2,141,467</u>	<u>\$ (2,352,705)</u>	<u>\$ 10,480,114</u>	<u>\$ 2,344,920</u>

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

E. The following is a summary of the District's future annual debt service requirements to maturity for the general obligation bonds:

Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 285,000	\$ 369,671	\$ 654,671	\$ -		
2007	295,000	356,657	651,657	-		
2008	310,000	342,900	652,900	-		
2009	320,000	328,398	648,398	-		
2010	340,000	312,366	652,366	-		
2011 - 2015	1,620,000	1,295,272	2,915,272	5,709	334,291	340,000
2016 - 2020	1,890,000	907,021	2,797,021	4,277	335,723	340,000
2021 - 2025	<u>2,320,000</u>	<u>323,629</u>	<u>2,643,629</u>	-	-	-
Total	<u>\$ 7,380,000</u>	<u>\$ 4,235,914</u>	<u>\$ 11,615,914</u>	<u>\$ 9,986</u>	<u>\$ 670,014</u>	<u>\$ 680,000</u>

F. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$2,385,438 and an unvoted debt margin of \$125,658.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The 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 2005 the District contracted with Indiana Insurance for general liability insurance and property insurance.

Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate. In addition, a \$3,000,000 per occurrence and aggregate policy was also underwritten by Indiana Insurance.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverages insure up to a blanket limit of \$28,647,325 with a \$2,500 deductible, commercial crime covers up to \$25,000.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Medical/Surgical, Dental and Vision Insurance

Medical/surgical, dental and vision insurance is offered to employees through a self-insurance internal service fund. The District has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$35,000 per covered person. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Self-Funded Plans, Inc. of Cleveland.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The District's independent third-party administrator has actuarially determined that \$127,683 is a good and sufficient provision for incurred but not reported claims as of June 30, 2005. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$127,683 reported in the internal service fund at June 30, 2005, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 310,280	\$ 1,634,418	\$ (1,817,015)	\$ 127,683
2004	232,674	1,336,941	(1,259,335)	310,280

C. Workers' Compensation

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (see Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$139,407, \$126,526, and \$104,882, respectively; \$42,839, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$678,805, \$689,033, and \$643,618, respectively; 90.46% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$64,762 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$724 made by the District and \$13,701 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$52,216 during fiscal 2005.

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

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$65,816 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 79,936
Net adjustment for revenue accruals	(91,591)
Net adjustment for expenditure accruals	1,849
Net adjustment for other sources/uses	22,941
Adjustment for encumbrances	<u>96,438</u>
GAAP basis	<u>\$ 109,573</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (35,128)	\$ (9,782,715)
Current year set-aside requirement	202,618	202,618
Qualifying disbursements	<u>(139,530)</u>	<u>(194,034)</u>
Total	<u>\$ 27,960</u>	<u>\$ (9,774,131)</u>
Cash balance carried forward to FY 2006	<u>\$ 27,960</u>	<u>\$ (9,774,131)</u>

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 17 - STATUTORY RESERVES – (Continued)

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for Textbooks	<u>\$ 27,960</u>
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NOTE 18 - SIGNIFICANT SUBSEQUENT EVENTS

On September 15, 2005, the District issued \$6,730,000 of bonds to retire the \$2,000,000 outstanding note payable and to advance refund a portion of the District's outstanding School Improvement Bonds.

MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$ -	\$ 19,873	\$ -	\$ 19,873
National School Lunch Program	045534-LLP4-04/05	10.555	125,326	-	125,326	-
Total U.S. Department of Agriculture - Child Nutrition Cluster			125,326	19,873	125,326	19,873
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Grants to States	045534-6BSF-04/05	84.027	280,051	-	262,813	-
Title I Grants to Local Educational Agencies	045534-C1S1-05	84.010	251,013	-	251,013	-
Safe and Drug-Free Schools and Communities State Grants	045534-DRS1-04/05	84.186	(1,577)	-	345	-
State Grants for Innovative Programs	045534-C2S1-01/04/05	84.298	21,566	-	14,288	-
Education Technology State Grants	045534-TJS1-05	84.318	6,645	-	6,673	-
Improving Teacher Quality State Grants	045334-TRS1-04/05	84.367	55,415	-	82,554	-
Total U.S. Department of Education			613,113	-	617,686	-
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<i>Passed Through the Ohio Department of Education</i>						
Learn and Serve America - School and Community Based Programs	045534-SVS1-04/05	94.004	9,936	-	15,000	-
Total U.S. Corporation for National and Community Service			9,936	-	15,000	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	6400769	93.778	18,492	-	18,492	-
State Children's Insurance Program	6400769	93.767	3,348	-	3,348	-
Total U.S. Department of Health and Human Services			21,840	-	21,840	-
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			\$ 770,215	\$ 19,873	\$ 779,852	\$ 19,873

The accompanying notes to this schedule are an integral part of this schedule.

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Mount Gilead Exempted Village School District
Morrow County
145½ North Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Mount Gilead Exempted Village School District, Morrow County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 1, 2006, wherein we noted the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 1, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 1, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Mount Gilead Exempted Village School District
Morrow County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

February 1, 2006



Auditor of State Betty Montgomery

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

Mount Gilead Exempted Village School District
Morrow County
145½ North Cherry Street
Mount Gilead, Ohio 43338

To the Board of Education:

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

February 1, 2006

**MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT
MORROW COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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MOUNT GILEAD EXEMPTED VILLAGE SCHOOL DISTRICT

MORROW 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 28, 2006**