

***MECHANICSBURG EXEMPTED VILLAGE SCHOOL
DISTRICT***

CHAMPAIGN COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Education
Mechanicsburg Exempted Village School District
60 High Street
Mechanicsburg, Ohio 43044

We have reviewed the *Report of Independent Accountants* of the Mechanicsburg Exempted Village School District, Champaign County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mechanicsburg Exempted Village School District is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

April 15, 2011

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
 CHAMPAIGN COUNTY
 AUDIT REPORT
 For the Year Ended June 30, 2010**

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REPORT OF INDEPENDENT ACCOUNTANTS

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mechanicsburg Exempted Village School District, Champaign County, Ohio, (the District), as of and for the fiscal year ended June 30, 2010, 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 an opinion on these financial statements based on our audit.

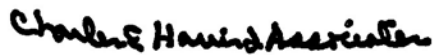
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Mechanicsburg Exempted Village School District, Champaign County, Ohio, as of June 30, 2010, and the respective changes in its financial position and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of opining on the financial statements that collectively comprise the Mechanicsburg Exempted Village School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as 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 of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Charles E. Harris" followed by a stylized flourish.

Charles E. Harris & Associates, Inc.
March 29, 2011

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The management's discussion and analysis of the Mechanicsburg 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, 2010. 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 2010 are as follows:

- In total, net assets of governmental activities decreased \$1,330,555 which represents a 6.47% decrease from 2009.
- General revenues accounted for \$8,215,233 in revenue or 77.87% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,335,104 or 22.13% of total revenues of \$10,550,337.
- The District had \$11,880,892 in expenses related to governmental activities; \$2,335,104 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,215,233 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$8,155,656 in revenues and \$8,946,171 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$790,515 from \$1,949,130 to \$1,158,615.
- The District's bond retirement fund had \$592,021 in revenues and other financing sources and \$564,177 in expenditures. During fiscal year 2010, the bond retirement fund's fund balance increased \$27,844 from \$223,382 to \$251,226.

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 the bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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 2010?" 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.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. 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 the bond retirement fund.

Governmental Funds

All 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. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

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. These notes to the basic financial statements can be found on pages 22-49 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 5,373,403	\$ 5,990,584
Capital assets, net	<u>24,905,514</u>	<u>25,534,962</u>
Total assets	<u>30,278,917</u>	<u>31,525,546</u>
<u>Liabilities</u>		
Current liabilities	3,424,854	3,176,229
Long-term liabilities	<u>7,622,083</u>	<u>7,786,782</u>
Total liabilities	<u>11,046,937</u>	<u>10,963,011</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	17,966,130	18,346,831
Restricted	814,767	797,969
Unrestricted	<u>451,083</u>	<u>1,417,735</u>
Total net assets	<u>\$ 19,231,980</u>	<u>\$ 20,562,535</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$19,231,980.

At year-end, capital assets represented 82.25% 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, 2010, were \$17,966,130. 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.

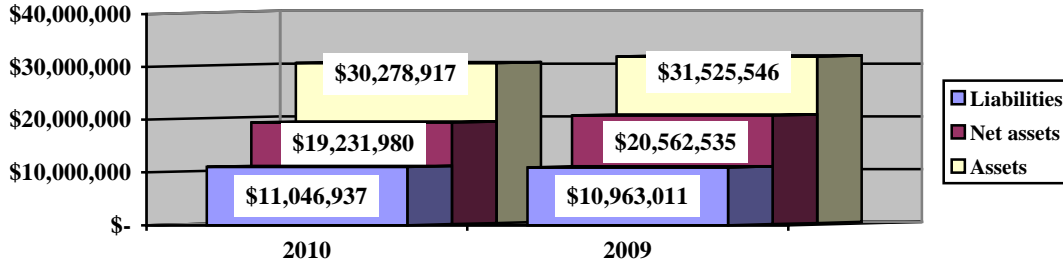
A portion of the District's net assets, \$827,393, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$438,457 may be used to meet the District's ongoing obligations to the students and creditors.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

The graph below presents the District's assets, liabilities and net assets for fiscal years 2010 and 2009.

Governmental Activities



The table below shows the change in net assets for fiscal years 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,169,289	\$ 1,158,851
Operating grants and contributions	1,165,815	985,416
Capital grants and contributions	-	10,775
General revenues:		
Property taxes	2,428,189	2,294,703
School district income taxes	1,259,671	1,395,481
Grants and entitlements	4,454,963	4,386,016
Investment earnings	10,762	60,066
Other	61,648	101,303
Total revenues	10,550,337	10,392,611

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**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Change in Net Assets - (Continued)

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,961,802	\$ 4,483,765
Special	1,448,564	1,442,331
Vocational	163,990	193,368
Support services:		
Pupil	368,455	381,390
Instructional staff	463,296	231,848
Board of education	66,657	45,060
Administration	914,976	797,430
Fiscal	315,400	305,102
Operations and maintenance	1,226,150	1,212,564
Pupil transportation	704,938	651,996
Central	170,101	108,148
Food service operations	284,086	287,135
Other non-instructional services	6,427	4,907
Extracurricular activities	440,225	433,802
Interest and fiscal charges	<u>345,825</u>	<u>351,372</u>
Total expenses	<u>11,880,892</u>	<u>10,930,218</u>
Change in net assets	(1,330,555)	(537,607)
Net assets at beginning of year	<u>20,562,535</u>	<u>21,100,142</u>
Net assets at end of year	<u>\$ 19,231,980</u>	<u>\$ 20,562,535</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,330,555. Total governmental expenses of \$11,880,892 were offset by program revenues of \$2,335,104 and general revenues of \$8,215,233. Program revenues supported 19.65% of the total governmental expenses.

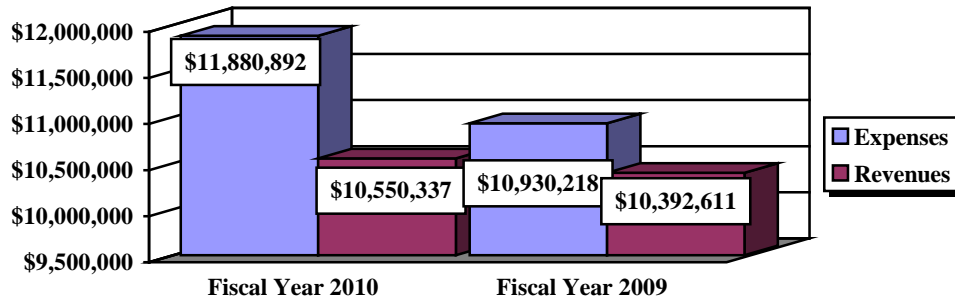
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 77.18% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,574,356 or 55.34% of total governmental expenses for fiscal year 2010.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2010 and 2009.



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.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 4,961,802	\$ 3,815,703	\$ 4,483,765	\$ 3,597,076
Special	1,448,564	1,070,584	1,442,331	788,576
Vocational	163,990	101,288	193,368	131,074
Support services:				
Pupil	368,455	340,880	381,390	352,889
Instructional staff	463,296	274,410	231,848	214,222
Board of education	66,657	66,657	45,060	45,060
Administration	914,976	909,216	797,430	785,767
Fiscal	315,400	315,400	305,102	305,102
Operations and maintenance	1,226,150	1,216,116	1,212,564	1,194,047
Pupil transportation	704,938	581,623	651,996	574,583
Central	170,101	129,062	108,148	108,148
Food service operations	284,086	6,703	287,135	(29,179)
Other non-instructional services	6,427	(3,549)	4,907	547
Extracurricular activities	440,225	375,870	433,802	355,892
Interest and fiscal charges	345,825	345,825	351,372	351,372
Total expenses	<u>\$ 11,880,892</u>	<u>\$ 9,545,788</u>	<u>\$ 10,930,218</u>	<u>\$ 8,775,176</u>

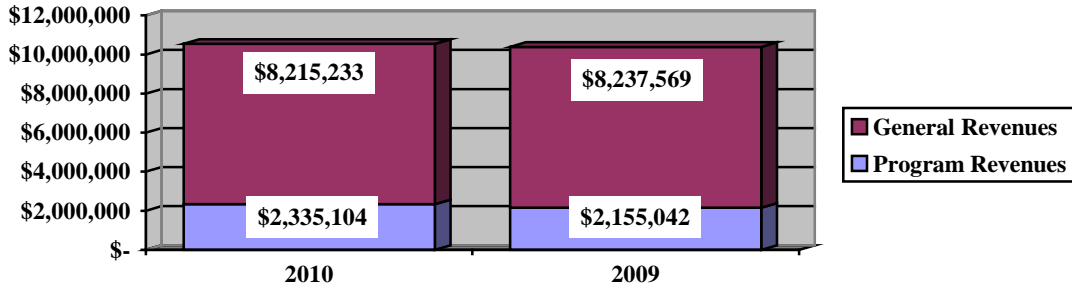
The dependence upon tax and other general revenues for governmental activities is apparent, 75.86% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.35%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,720,418, which is less than last year's total of \$2,612,710. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase (Decrease)	Percentage Change
General	\$ 1,158,615	\$ 1,949,130	\$ (790,515)	(40.56) %
Bond retirement	251,226	223,382	27,844	12.46 %
Other governmental	310,577	440,198	(129,621)	(29.45) %
Total	<u>\$ 1,720,418</u>	<u>\$ 2,612,710</u>	<u>\$ (892,292)</u>	(34.15) %

General Fund

The District's general fund balance decreased \$790,515. The decrease in fund balance can be attributed to several items related to increasing expenditures and decreasing revenues. Expenditures exceeded revenues for fiscal year 2010 by \$751,311.

The decrease in taxes revenue is the result of lower income tax collections due to increased unemployment and the general downturn in the economy. This decrease, however, was partially offset by an increase in tuition revenues, which is due to increased enrollment and the District's open enrollment tuition. Earnings on investments decreased due to lower interest rates during the fiscal year. Intergovernmental revenues decreased as a result of a lower State Foundation allowance. Despite the decrease in revenues, general fund expenditures increased, most notably the expenditures for support services. This increase is due primarily to an increase in pupil transportation costs, and also increased administration costs which is due to an increase in wages and benefits expenses. The increase in wages and benefits expenses is due to the District hiring additional staff for fiscal year 2010, and is also the result of normal increases due to labor union negotiations. Debt service expenditures in the general fund are related to payments on the District's copier lease, which was paid off in fiscal year 2009. The table that follows assists in illustrating the financial activities of the general fund.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,974,840	\$ 3,032,950	\$ (58,110)	(1.92) %
Tuition	614,609	561,582	53,027	9.44 %
Earnings on investments	9,857	46,384	(36,527)	(78.75) %
Intergovernmental	4,494,823	4,749,830	(255,007)	(5.37) %
Other revenues	<u>61,527</u>	<u>53,329</u>	<u>8,198</u>	15.37 %
Total	<u>\$ 8,155,656</u>	<u>\$ 8,444,075</u>	<u>\$ (288,419)</u>	(3.42) %
<u>Expenditures</u>				
Instruction	\$ 4,946,067	\$ 4,585,624	\$ 360,443	7.86 %
Support services	3,763,560	3,244,966	518,594	15.98 %
Extracurricular activities	197,340	212,839	(15,499)	(7.28) %
Debt service	<u>-</u>	<u>18,942</u>	<u>(18,942)</u>	(100.00) %
Total	<u>\$ 8,906,967</u>	<u>\$ 8,062,371</u>	<u>\$ 844,596</u>	10.48 %

Bond Retirement Fund

The District's bond retirement fund had \$592,021 in revenues and other financing sources and \$564,177 in expenditures. During fiscal year 2010, the bond retirement fund's fund balance increased \$27,844 from \$223,382 to \$251,226.

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 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,703,150 and final budgeted revenues and other financing sources were \$8,864,269. Actual revenues and other financing sources for fiscal 2010 were \$8,596,062. This represents a \$268,207 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,245,187 were increased to \$9,436,854 in the final appropriations. The actual budget basis expenditures for fiscal year 2010 totaled \$9,244,264 which was \$192,590 less than the final budget appropriations.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the District had \$24,905,514 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 year 2010 balances compared to 2009:

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

	Governmental Activities	
	2010	2009
Land	\$ 250,000	\$ 250,000
Land improvements	3,768,331	3,992,007
Building and improvements	20,061,845	20,569,955
Furniture and equipment	562,619	549,974
Vehicles	262,719	173,026
Total	\$ 24,905,514	\$ 25,534,962

The overall decrease in capital assets of \$629,448 is due to depreciation expense of \$875,814 exceeding capital outlays of \$246,366.

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

Debt Administration

At June 30, 2010, the District had \$6,945,246 in general obligation bonds outstanding, including accreted interest. Of this total, \$215,000 is due within one year and \$6,730,246 is due in more than one year. The District also had \$73,258 in capital lease obligations outstanding. Of this total, \$35,797 is due within one year and \$37,461 is due in more than one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2010	2009
General obligation bonds	\$ 6,945,246	\$ 7,115,758
Capital lease obligations	73,258	107,464
Total	\$ 7,018,504	\$ 7,223,222

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

Current Financial Related Activities

Overall, the District is financially stable. As the preceding information shows, the District relies heavily upon property taxes, income taxes, and State support. Decreases in property tax revenues began in fiscal year 2007, due to changes enacted in the State's biennial budget bill effective July 1, 2005. Small growth in student population due to new housing will increase State support. An additional five year one percent income tax was passed by the voters in May 2006. The total income tax being collected during fiscal year 2010 was one and one half percent.

The challenge for the District's management is to continue to provide the resources necessary to meet student needs and be able to stay within the five-year forecast. The five-year forecast is utilized by management in order to effectively and efficiently manage the District's resources to their fullest.

The construction project undertaken through the Ohio School Facilities Commission (OSFC) was complete in June 2006. One new PreK-12 school costing \$24.2 million began construction in late summer 2005.

Since the District relies on the State for approximately 56% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The general health of the economy has adversely affected the District as fuel prices continue to be unstable, also Ohio ranks fifth in the number of individual house foreclosures and an unemployment rate of over 10% which could affect tax receipts and other school revenue.

The current State budget provides for little or no growth in the State support of the school. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With approximately thirty-five percent of taxes paid to the District coming from business or industry, this could have a significant impact on the District's residential taxpayers.

Changes in State support with the enactment of the current State budget includes an elimination in the Cost of Doing Business Factor, the tax on general business and railroad property was eliminated in 2009 and the tax on telephone and telecommunications property will be eliminated by 2011. Although the budget bill replaces the revenue lost due to phasing out the tax fully in the first five years, in the following seven years, the reimbursements are phased out.

The District's systems of budgeting and internal control are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Patricia A. Sheffield, Treasurer, Mechanicsburg Exempted Village School District, 60 High Street, Mechanicsburg, Ohio 43044.

BASIC
FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,257,446
Cash in segregated accounts	150,710
Receivables:	
Taxes	2,833,069
Intergovernmental	42,789
Accrued interest	629
Prepayments.	3,417
Materials and supplies inventory	910
Unamortized bond issuance costs.	84,433
Capital assets:	
Land	250,000
Depreciable capital assets, net.	24,655,514
Capital assets, net	24,905,514
Total assets	30,278,917
Liabilities:	
Accounts payable.	51,789
Contracts payable.	150,710
Accrued wages and benefits	913,233
Pension obligation payable.	196,482
Intergovernmental payable	45,231
Accrued interest payable	25,054
Unearned revenue	2,042,355
Long-term liabilities:	
Due within one year.	321,390
Due in more than one year.	7,300,693
Total liabilities	11,046,937
Net assets:	
Invested in capital assets, net of related debt.	17,966,130
Restricted for:	
Capital projects	343,960
Debt service.	253,294
Classroom facilities maintenance	137,417
State funded programs.	5,587
Other purposes	74,509
Unrestricted	451,083
Total net assets	\$ 19,231,980

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>and Sales</u>	<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 4,961,802	\$ 899,684	\$ 246,415	\$ (3,815,703)
Special	1,448,564	14,837	363,143	(1,070,584)
Vocational	163,990	-	62,702	(101,288)
Support services:				
Pupil	368,455	-	27,575	(340,880)
Instructional staff	463,296	6,961	181,925	(274,410)
Board of education	66,657	-	-	(66,657)
Administration	914,976	4,442	1,318	(909,216)
Fiscal	315,400	-	-	(315,400)
Operations and maintenance	1,226,150	10,034	-	(1,216,116)
Pupil transportation	704,938	-	123,315	(581,623)
Central	170,101	-	41,039	(129,062)
Operation of non-instructional services:				
Food service operations	284,086	165,816	111,567	(6,703)
Other non-instructional services	6,427	5,997	3,979	3,549
Extracurricular activities	440,225	61,518	2,837	(375,870)
Interest and fiscal charges	345,825	-	-	(345,825)
Total governmental activities	\$ 11,880,892	\$ 1,169,289	\$ 1,165,815	(9,545,788)
		General revenues:		
		Property taxes levied for:		
		General purposes	1,722,588	
		Debt service	488,396	
		Special revenue	35,782	
		Capital projects	181,423	
		School district income tax	1,259,671	
		Grants and entitlements not restricted to specific programs	4,454,963	
		Investment earnings	10,762	
		Miscellaneous	61,648	
		Total general revenues	8,215,233	
		Change in net assets		(1,330,555)
		Net assets at beginning of year		20,562,535
		Net assets at end of year		\$ 19,231,980

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,444,125	\$ 204,357	\$ 584,572	\$ 2,233,054
Cash in segregated accounts	-	-	150,710	150,710
Receivables:				
Taxes	2,243,097	417,489	172,483	2,833,069
Intergovernmental	-	-	42,789	42,789
Accrued interest	629	-	-	629
Interfund	135,600	-	-	135,600
Loans to other funds	27,000	-	-	27,000
Prepayments	3,417	-	-	3,417
Materials and supplies inventory	-	-	910	910
Restricted assets:				
Equity in pooled cash and cash equivalents	24,392	-	-	24,392
Total assets	<u>\$ 3,878,260</u>	<u>\$ 621,846</u>	<u>\$ 951,464</u>	<u>\$ 5,451,570</u>
Liabilities:				
Accounts payable	\$ 39,566	\$ -	\$ 12,223	\$ 51,789
Contracts payable	-	-	150,710	150,710
Accrued wages and benefits	856,330	-	56,903	913,233
Pension obligation payable	186,044	-	10,438	196,482
Intergovernmental payable	42,720	-	2,511	45,231
Interfund payable	-	-	135,600	135,600
Loans from other funds	-	-	27,000	27,000
Deferred revenue	100,657	27,092	41,003	168,752
Unearned revenue	<u>1,494,328</u>	<u>343,528</u>	<u>204,499</u>	<u>2,042,355</u>
Total liabilities	<u>2,719,645</u>	<u>370,620</u>	<u>640,887</u>	<u>3,731,152</u>
Fund balances:				
Reserved for encumbrances	64,818	-	2,607	67,425
Reserved for materials and supplies inventory	-	-	910	910
Reserved for prepayments	3,417	-	-	3,417
Reserved for tax revenue unavailable for appropriation	173,627	46,869	20,516	241,012
Reserved for BWC refunds	24,392	-	-	24,392
Reserved for loans	27,000	-	-	27,000
Reserved for debt service	-	204,357	-	204,357
Unreserved, undesignated (deficit), reported in:				
General fund	865,361	-	-	865,361
Special revenue funds	-	-	(30,056)	(30,056)
Capital projects funds	-	-	316,600	316,600
Total fund balances	<u>1,158,615</u>	<u>251,226</u>	<u>310,577</u>	<u>1,720,418</u>
Total liabilities and fund balances	<u>\$ 3,878,260</u>	<u>\$ 621,846</u>	<u>\$ 951,464</u>	<u>\$ 5,451,570</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	1,720,418
<i>Amounts reported for governmental activities on 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.			24,905,514
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	139,877	
Intergovernmental receivable		<u>28,875</u>	
Total			168,752
Unamortized bond issuance costs are not recognized in the funds.			84,433
Unamortized premiums on bond issuances are not recognized in the funds.			(85,861)
Accrued interest payable is not due and payable in the current period and therefore is not recorded in the funds.			(25,054)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		6,945,246	
Capital lease obligation payable		73,258	
Compensated absences payable		<u>517,718</u>	
Total			<u>(7,536,222)</u>
Net assets of governmental activities		<u>\$</u>	<u>19,231,980</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 2,974,840	\$ 485,977	\$ 216,758	\$ 3,677,575
Tuition	614,609	-	-	614,609
Earnings on investments	9,857	-	934	10,791
Charges for services	-	-	165,816	165,816
Extracurricular	-	-	94,268	94,268
Classroom materials and fees	-	-	29,254	29,254
Other local revenues	61,527	-	283,860	345,387
Intergovernmental - state	4,494,823	66,840	45,393	4,607,056
Intergovernmental - federal	-	-	971,885	971,885
Total revenue	<u>8,155,656</u>	<u>552,817</u>	<u>1,808,168</u>	<u>10,516,641</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,798,208	-	556,452	4,354,660
Special	991,492	-	452,426	1,443,918
Vocational	156,367	-	7,193	163,560
Support services:				
Pupil	337,900	-	31,673	369,573
Instructional staff	278,364	-	182,855	461,219
Board of education	66,657	-	-	66,657
Administration	889,681	-	6,811	896,492
Fiscal	297,830	11,303	5,225	314,358
Operations and maintenance	1,028,929	-	184,932	1,213,861
Pupil transportation	747,368	-	46,949	794,317
Central	116,831	-	41,039	157,870
Operation of non-instructional services:				
Food service operations	-	-	249,152	249,152
Other non-instructional services	-	-	6,427	6,427
Extracurricular activities	197,340	-	97,351	294,691
Facilities acquisition and construction	-	-	69,304	69,304
Debt service:				
Principal retirement	-	239,206	-	239,206
Interest and fiscal charges	-	313,668	-	313,668
Total expenditures	<u>8,906,967</u>	<u>564,177</u>	<u>1,937,789</u>	<u>11,408,933</u>
Excess of expenditures over revenues	<u>(751,311)</u>	<u>(11,360)</u>	<u>(129,621)</u>	<u>(892,292)</u>
Other financing sources (uses):				
Transfers in	-	39,204	-	39,204
Transfers (out)	(39,204)	-	-	(39,204)
Total other financing sources (uses)	<u>(39,204)</u>	<u>39,204</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(790,515)	27,844	(129,621)	(892,292)
Fund balances at beginning of year	<u>1,949,130</u>	<u>223,382</u>	<u>440,198</u>	<u>2,612,710</u>
Fund balances at end of year	<u>\$ 1,158,615</u>	<u>\$ 251,226</u>	<u>\$ 310,577</u>	<u>\$ 1,720,418</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

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, 2010

Net change in fund balances - total governmental funds \$ (892,292)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Additions	\$ 246,366	
Depreciation expense	(875,814)	
Total		(629,448)

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

Taxes	10,285	
Intergovernmental	23,411	
Total		33,696

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

239,206

In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:

Decrease in accrued interest payable	2,174	
Accreted interest on capital appreciation bonds	(34,488)	
Amortization of bond premium	9,541	
Amortization of bond issuance costs	(9,384)	
Total		(32,157)

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

(49,560)

Change in net assets of governmental activities \$ (1,330,555)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 2,903,310	\$ 2,957,058	\$ 2,935,591	\$ (21,467)
Tuition	646,850	658,825	614,609	(44,216)
Earnings on investments	19,636	20,000	11,218	(8,782)
Other local revenues	62,542	63,700	68,495	4,795
Intergovernmental - state	4,488,979	4,572,082	4,498,921	(73,161)
Total revenue	<u>8,121,317</u>	<u>8,271,665</u>	<u>8,128,834</u>	<u>(142,831)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,565,969	3,639,898	3,607,116	32,782
Special	948,755	968,424	942,050	26,374
Vocational	146,442	149,478	146,274	3,204
Support services:				
Pupil	327,511	334,301	331,263	3,038
Instructional staff	289,807	295,815	263,178	32,637
Board of education	83,787	85,524	83,220	2,304
Administration	907,656	926,473	868,856	57,617
Fiscal	288,129	294,102	287,664	6,438
Operations and maintenance	1,001,407	1,022,168	1,041,363	(19,195)
Pupil transportation	753,118	768,731	723,020	45,711
Central	117,507	119,943	111,232	8,711
Extracurricular activities	235,021	239,893	202,924	36,969
Total expenditures	<u>8,665,109</u>	<u>8,844,750</u>	<u>8,608,160</u>	<u>236,590</u>
Excess of expenditures over revenues	<u>(543,792)</u>	<u>(573,085)</u>	<u>(479,326)</u>	<u>93,759</u>
Other financing sources (uses):				
Refund of prior year's expenditures	4,909	5,000	3,720	(1,280)
Transfers (out)	(38,408)	(39,204)	(39,204)	-
Advances in	576,433	587,104	463,008	(124,096)
Advances (out)	(541,670)	(552,900)	(596,900)	(44,000)
Sale of capital assets	491	500	500	-
Total other financing sources (uses)	<u>1,755</u>	<u>500</u>	<u>(168,876)</u>	<u>(169,376)</u>
Net change in fund balance	(542,037)	(572,585)	(648,202)	(75,617)
Fund balance at beginning of year	1,885,859	1,885,859	1,885,859	-
Prior year encumbrances appropriated	159,476	159,476	159,476	-
Fund balance at end of year	<u>\$ 1,503,298</u>	<u>\$ 1,472,750</u>	<u>\$ 1,397,133</u>	<u>\$ (75,617)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,206	\$ 54,530
Total assets	7,206	\$ 54,530
Liabilities:		
Accounts payable	-	\$ 200
Due to students	-	54,330
Total liabilities	-	\$ 54,530
Net assets:		
Held in trust for scholarships	7,206	
Total net assets	\$ 7,206	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 82
Total additions	82
Deductions:	
Scholarships awarded	177
Change in net assets	(95)
Net assets at beginning of year	7,301
Net assets at end of year	\$ 7,206

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mechanicsburg Exempted Village School District (the "District") is located in Champaign County, in west-central Ohio. The District includes all of the Village of Mechanicsburg and portions of surrounding townships.

The District was organized in accordance with 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 District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates one building that is composed of its elementary, middle school and high school. The District employs 41 non-certified and 69 certified (including administrative) full-time and part-time employees to provide services to approximately 983 students in grades K through 12 and various community groups, which ranks it 486th out of 905 public school districts and community schools in Ohio.

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) guidance issued on or before November 30, 1989 to its governmental activities provided it does 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", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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, food service 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Career Center

The Ohio Hi-Point Career Center is a distinct political subdivision of the State of Ohio, which possesses its own budgeting and taxing authority. The Career Center is governed by a board of education that consists of a representative from each participating school district and its degree of control is limited to its representation on the board. To obtain financial information write to the Ohio Hi-Point Career Center, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of various public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Shelby, and Miami counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to member school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent on the software package utilized. In accordance with GASB Statement No. 14, the District does not have an equity interest in WOCO, as the residual interest in net resources of the joint venture upon dissolution is not equivalent to an equity interest. WOCO is governed by a board of directors consisting of the superintendents of the member school districts and the degree of control is limited to the representation on the board. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

RELATED ORGANIZATION

Mechanicsburg Public Library

The Mechanicsburg Public Library (Library) is an organization related 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 may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library determines its own budget. The Library did not receive any funding from the District during fiscal year 2010.

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP)

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

PUBLIC ENTITY RISK POOL

The District is also a participant in an insurance group purchasing pool, discussed in Note 12.

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:

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.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

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 trust funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

PROPRIETARY FUNDS

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 proprietary funds.

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's private purpose trust fund accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student activities and District agency services.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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.

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. 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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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. 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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 income taxes is recognized in the period in which the income is earned (See Note 8). 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, income taxes, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used 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.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2010 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2010; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

During fiscal year 2010, investments were limited investments in the 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 shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Investment earnings are assigned to the general fund, building fund, classroom facilities, food service fund, and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$9,857, which includes \$3,663 assigned from other funds.

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 year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed 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

Governmental capital assets are those assets generally related to governmental activities. 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. The District's capitalization threshold is \$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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. Long-term interfund loans that will not be repaid within the next fiscal year are classified as “loans to/from other funds” and are shown as reservations of fund balances on the balance sheet because they are not spendable, available resources. 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 sick leave 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. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, 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 sick leave on employees expected to become eligible to retire in the future, all employees age 50 or more with at least 10 years of service, or any employee with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

For governmental fund financial statements, the current portion of unpaid matured compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

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, debt service, materials and supplies inventory, prepayments, loans to other funds, BWC refunds and property tax unavailable for appropriation. The reserve for property tax unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. 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 enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents an amount restricted by State statute for BWC refunds, special trust, uniform school supplies, public school support and special enterprises.

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

N. 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 amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

O. 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.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside for BWC refunds, which is required by State statute. A schedule of statutory reserves is presented in Note 17.

Q. Interfund Activity

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

R. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

S. 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 2010.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 26,953
Internal service rotary	18,621
District managed activity	12,768
IDEA part B	96,910
School improvement stimulus	11,275
Title I	71,938
Improving teacher quality	303

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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Interim monies may 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the 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.

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 fiscal year end, the District had \$2,000 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 in Segregated Accounts

At June 30, 2010, the District had \$150,710 in a segregated account for construction liens. This account was covered by the FDIC. This amount is not included in the District's depository balance below.

C. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,601,315. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$1,135,885 of the District's bank balance of \$1,856,380 was exposed to custodial risk as discussed below, while \$720,495 was covered by the FDIC.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	\$ <u>715,867</u>	\$ <u>715,867</u>

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State Statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The 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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>715,867</u>	<u>100.00</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,601,315
Investments	715,867
Cash in segregated accounts	150,710
Cash on hand	<u>2,000</u>
Total	<u>\$ 2,469,892</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,408,156
Private-purpose trust fund	7,206
Agency funds	<u>54,530</u>
Total	<u>\$ 2,469,892</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	
Bond retirement fund	\$ 39,204

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, and (2) to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers from the general fund to the bond retirement fund are for principal and interest payments on the District's school bus capital lease.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

- B.** Interfund balances at June 30, 2010, as reported on the fund financial statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$135,600

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 are reported on the statement of net assets.

- C. Interfund balances at June 30, 2010, as reported on the fund financial statements, consist of the following loans to/from other funds.

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$27,000

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The long-term interfund balances are not expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 are reported on the 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Champaign and Madison Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$173,627 in the general fund, \$46,869 in the bond retirement fund, \$17,200 in the permanent improvement fund (a nonmajor governmental fund) and \$3,316 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available as an advance at June 30, 2009 was \$98,105 in the general fund, \$26,394 in the bond retirement fund, \$9,656 in the permanent improvement fund (a nonmajor governmental fund) and \$1,815 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 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 unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 79,889,670	94.92	\$ 80,703,540	96.09
Public utility personal	3,130,250	3.72	3,150,210	3.75
Tangible personal property	<u>1,144,760</u>	<u>1.36</u>	<u>138,140</u>	<u>0.16</u>
Total	<u>\$ 84,164,680</u>	<u>100.00</u>	<u>\$ 83,991,890</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$31.20		\$28.50	
Permanent improvement	5.00		5.50	
Bond retirement	6.00		6.00	

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, intergovernmental grants and entitlements, and accrued interest. 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	\$ 2,833,069
Intergovernmental	42,789
Accrued interest	<u>629</u>
Total	<u>\$ 2,876,487</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 8 - INCOME TAXES

The District levies a voted income tax of one and one half percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1997 and is in effect for a continual period of time. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$1,259,671 for fiscal year 2010. Taxes receivable reported in the basic financial statements includes \$474,485 of income tax receivable.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> 7/1/09	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 6/30/10
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Total capital assets, not being depreciated	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,473,509	-	-	4,473,509
Buildings and improvements	21,720,429	42,711	-	21,763,140
Furniture and equipment	743,016	58,390	-	801,406
Vehicles	<u>857,823</u>	<u>145,265</u>	<u>-</u>	<u>1,003,088</u>
Total capital assets, being depreciated	<u>27,794,777</u>	<u>246,366</u>	<u>-</u>	<u>28,041,143</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(481,502)	(223,676)	-	(705,178)
Buildings and improvements	(1,150,474)	(550,821)	-	(1,701,295)
Furniture and equipment	(193,042)	(45,745)	-	(238,787)
Vehicles	<u>(684,797)</u>	<u>(55,572)</u>	<u>-</u>	<u>(740,369)</u>
Total accumulated depreciation	<u>(2,509,815)</u>	<u>(875,814)</u>	<u>-</u>	<u>(3,385,629)</u>
Governmental activities capital assets, net	<u>\$ 25,534,962</u>	<u>\$ (629,448)</u>	<u>\$ -</u>	<u>\$ 24,905,514</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 606,651
<u>Support services:</u>	
Administration	18,896
Operations and maintenance	5,576
Pupil transportation	55,572
Central	2,519
Extracurricular activities	155,007
Food service operations	<u>31,593</u>
Total depreciation expense	<u>\$ 875,814</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 10 - CAPITAL LEASE - LESSEE DISCLOSURE

In a prior year, the District has entered into a lease for the acquisition of school buses. This lease meets the criteria of a capital lease as defined by GAAP, which define a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments are reflected as debt service expenditures in the financial statements.

Capital assets consisting of vehicles have been capitalized in the amount of \$138,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2010 was \$43,125, leaving a current book value of \$94,875. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$34,206 paid by the bond retirement fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2011	\$ 39,204
2012	<u>39,203</u>
Total minimum lease payment	78,407
Less: amount representing interest	<u>(5,149)</u>
Present value of minimum lease payments	<u>\$ 73,258</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The following is a description of the District's long-term debt obligations outstanding as of June 30, 2010:

	Balance Outstanding <u>6/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>6/30/10</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
General obligation					
current interest bonds	\$ 6,790,000	\$ -	\$ (205,000)	\$ 6,585,000	\$ 215,000
General obligation					
capital appreciation bonds	195,265	-	-	195,265	-
General obligation capital appreciation					
bonds-accreted interest	130,493	34,488	-	164,981	-
Capital lease obligation payable	107,464	-	(34,206)	73,258	35,797
Compensated absences payable	<u>468,158</u>	<u>107,208</u>	<u>(57,648)</u>	<u>517,718</u>	<u>70,593</u>
Total long-term obligations	<u>\$ 7,691,380</u>	<u>\$ 141,696</u>	<u>\$ (296,854)</u>	7,536,222	<u>\$ 321,390</u>
				Add: Unamortized premium on bonds	<u>85,861</u>
				Total on statement of net assets	<u>\$ 7,622,083</u>

General obligation bonds, series 2004: The general obligation bonds, series 2004, were issued on April 1, 2004, mature on December 1, 2031, and carry interest rates from 3.75% to 5.00%. The general obligation bonds are comprised of current interest serial bonds (par value \$2,680,000), current interest term bonds (par value \$4,900,000), and capital appreciation bonds (par value \$195,265). Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The general obligation bonds were issued in order to provide funds for the acquisition and construction of land, facilities and equipment.

The capital appreciation bonds mature at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$440,000. Total accreted interest of \$164,981 has been included on the statement of net assets.

The current interest bonds maturing on December 1, 2015 and thereafter are subject to optional redemption, in whole or in part on any date in any order of maturity and by lot within a maturity on or after December 1, 2014 at par, which is 100% of the face value of the current interest bonds. The capital appreciation bonds are not subject to redemption prior to scheduled maturity.

Compensated absences: Compensated absences will be paid from the fund from which the employee is paid, which, for the District, is primarily the general fund.

Capital lease obligation: The capital lease obligation will be paid from the bond retirement fund. See Note 10 for more details.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Current Interest Bonds, Series 2004			Capital Appreciation Bonds, Series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 215,000	\$ 302,101	\$ 517,101	\$ -	\$ -	\$ -
2012	-	298,608	298,608	102,540	117,460	220,000
2013	-	298,608	298,608	92,725	127,275	220,000
2014	220,000	294,208	514,208	-	-	-
2015	230,000	285,208	515,208	-	-	-
2016 - 2020	1,300,000	1,272,828	2,572,828	-	-	-
2021 - 2025	1,615,000	945,737	2,560,737	-	-	-
2026 - 2030	2,040,000	506,000	2,546,000	-	-	-
2031 - 2032	965,000	48,875	1,013,875	-	-	-
Total	<u>\$ 6,585,000</u>	<u>\$ 4,252,173</u>	<u>\$ 10,837,173</u>	<u>\$ 195,265</u>	<u>\$ 244,735</u>	<u>\$ 440,000</u>

C. 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$1,016,394 (including available funds of \$251,226) and an unvoted debt margin of \$83,838.

NOTE 12 - RISK MANAGEMENT

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

The District provides medical/surgical benefits to its employees through the United Health Care Inc., a fully funded program. The District has elected to provide employee life insurance and accidental death and dismemberment insurance through Sun Financial, a fully funded program. Dental insurance that is 100% employee funded is also offered.

Postemployment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 12 - RISK MANAGEMENT - (Continued)

During fiscal year 2010, the District participated in a joint self-insurance pool pursuant to Revised Code Section 2744.081 administered through the Schools of Ohio Risk Sharing Authority (SORSA). Insurances are provided by SORSA through a self-funded plan. Reinsurance is provided by The Travelers Insurance Companies and United Educators for all liability protection. Coverages provided by SORSA are as follows:

Building and contents - replacement cost	\$30,638,078
Automobile liability	12,000,000
Uninsured motorists	2,000,000
Crime	100,000
General liability:	
Per occurrence	12,000,000
Total per year	12,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2009.

OASBO WORKERS' COMPENSATION GROUP RATING

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$135,202, \$87,109 and \$83,087, respectively; 42.26 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$489,559, \$432,329 and \$414,379, respectively; 84.82 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$28,924 made by the District and \$20,660 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$21,245, \$55,380 and \$51,124, respectively; 42.26 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$8,040, \$7,187 and \$5,987, respectively; 42.26 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$37,658, \$33,256 and \$31,875, respectively; 84.82 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of 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);

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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); and,
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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	\$ (648,202)
Net adjustment for revenue accruals	26,822
Net adjustment for expenditure accruals	(370,191)
Net adjustment for other sources/uses	129,672
Adjustment for encumbrances	71,384
GAAP basis	\$ (790,515)

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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	BWC <u>Refund</u>
Set-aside balance/carry forward as of June 30, 2009	\$ 17,128	\$ (8,122,122)	\$ 24,392
Current year set-aside requirement	154,104	154,104	-
Current year offsets	-	(207,714)	-
Qualifying disbursements	<u>(332,540)</u>	<u>(264,520)</u>	<u>-</u>
Total	<u>\$(161,308)</u>	<u>\$ (8,440,252)</u>	<u>\$ 24,392</u>
Balance carried forward to fiscal year 2011	<u>\$(161,308)</u>	<u>\$ (8,122,122)</u>	<u>\$ 24,392</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks/instructional materials reserve; this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside below zero, these extra amounts may only be used for carryover since they are debt related.

A schedule of the restricted assets at June 30, 2010 follows:

BWC refund	<u>24,392</u>
Total restricted assets	<u>\$ 24,392</u>

Mechanicsburg Exempted Village School District
Champaign County

Schedule of Federal Awards Expenditures
For The Fiscal Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Federal Receipts	Federal Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass through Ohio Department of Education			
Title I:			
Title I-Grants to LEA-Formula	84.010	\$ 193,415	\$ 192,545
Title I-School Improvement AARA	84.389	60,000	60,000
Title I-ARRA	84.389	108,142	108,142
Total Title I		<u>361,557</u>	<u>360,687</u>
Special Education Cluster:			
Title VI-B	84.027	167,911	167,911
Title VI-B-ARRA	84.391	193,158	193,158
Total Special Education Cluster		<u>361,069</u>	<u>361,069</u>
Title IV - Safe and Drug Free Schools and Communities	84.186	3,345	3,345
Total Title IV		<u>3,345</u>	<u>3,345</u>
Title II D - Educational Technology State Grants	84.386	1,732	1,732
Total Title II-D		<u>1,732</u>	<u>1,732</u>
Title II A - Improving Teacher Quality	84.367	39,337	39,337
Total Title II-A		<u>39,337</u>	<u>39,337</u>
State Fiscal Stabilization Fund - ARRA	84.394	275,560	275,560
Total State Fiscal Stabilization Fund		<u>275,560</u>	<u>275,560</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		1,042,600	1,041,730
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster:			
Direct Program: Non-Cash Assistance:			
Food Distribution Program	10.555	23,482	23,482
Passed through Ohio Department of Education-Cash Assistance:			
National School Lunch Program	10.555	119,467	119,467
Total Nutrition Cluster		<u>142,949</u>	<u>142,949</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>142,949</u>	<u>142,949</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 1,185,549</u>	<u>\$ 1,184,679</u>

See notes to the Schedule of Federal Awards Expenditures

MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2010

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2010, the District had commodities in inventory recorded in the Food Service Fund.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mechanicsburg Exempted Village School District, Champaign County, Ohio (the District) as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 29, 2011. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

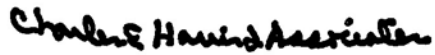
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies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

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

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 grants 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Charles E. Harris" followed by a stylized flourish.

Charles E. Harris & Associates, Inc.
March 29, 2011

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Charles E. Harris & Associates, Inc.
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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

Compliance

We have audited the compliance of the Mechanicsburg Exempted Village School District, Champaign County (the District), with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the 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 programs for the year ended June 30, 2010.

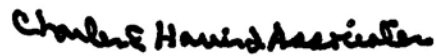
Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

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

A handwritten signature in black ink that reads "Charles E. Harris" followed by a stylized flourish.

Charles E. Harris and Associates, Inc.
March 29, 2011

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY
June 30, 2010**

**OMB CIRCULAR A-133 SECTION .505
SCHEDULE OF FINDINGS**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Unqualified Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510	No
(d)(1)(vii)	Major Programs:	Title I: CFDA #84.010 and #84.389 Special Education Cluster: CFDA#84.027 and #84.391
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ended June 30, 20 09, reported no material citations or recommendations.

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Dave Yost • Auditor of State

MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT

CHAMPAIGN 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
MAY 5, 2011**