

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004*

PATRICIA A. SHEFFIELD, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Mechanicsburg Exempted Village School District
Mechanicsburg, Ohio

We have reviewed the Independent Auditor's Report of the Mechanicsburg Exempted Village School District, Champaign County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 15, 2005

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

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Independent Auditor’s Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District (the “District”), Champaign County, as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mechanicsburg Exempted Village School District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 the 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 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, as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements; and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the fiscal year ended June 30, 2004. In addition, the District had a prior period adjustment for capital assets due to errors and omissions as described in Note 9.A.

Independent Auditor's Report
Mechanicsburg Exempted Village School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2005, on our consideration of the Mechanicsburg Exempted Village School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 to 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 supplementary information. However, we did not audit the information and express no opinion on it.



Trimble, Julian & Grube, Inc.
February 25, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities increased \$16,399,959 which represents a 900.13% increase from 2003.
- General revenues accounted for \$22,494,769 in revenue or 95.68% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,016,157 or 4.32% of total revenues of \$23,510,926.
- The District had \$7,110,967 in expenses related to governmental activities; \$1,016,157 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 \$22,494,769 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, building fund and classroom facilities fund. The general fund had \$5,818,546 in revenues and other financing sources and \$6,099,885 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$281,339 from \$892,534 to \$611,195.
- The District's bond retirement fund had \$8,273,700 in revenues and other financing sources and \$8,046,878 in expenditures. During fiscal year 2004, the bond retirement fund's fund balance increased \$226,822 from \$12,289 to \$239,111.
- The District's building fund had \$3,190,659 in revenues and other financing sources and \$217,557 in expenditures. During fiscal year 2004, the building fund's fund balance increased to \$2,973,102.
- The District's classroom facilities fund had \$5,934,976 in revenues and other financing sources. During fiscal year 2004, the classroom facilities fund's fund balance increased to \$5,934,976.

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, bond retirement fund, building fund and classroom facilities 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, 2004
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 2004?" 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, bond retirement fund, building fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. 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, 2004
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 22-50 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 28,015,505
Capital assets	<u>1,379,214</u>
Total assets	<u>29,394,719</u>
<u>Liabilities</u>	
Current liabilities	2,621,660
Long-term liabilities	<u>8,551,154</u>
Total liabilities	<u>11,172,814</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	766,405
Restricted	17,220,973
Unrestricted	<u>234,527</u>
Total net assets	<u>\$ 18,221,905</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$18,221,905.

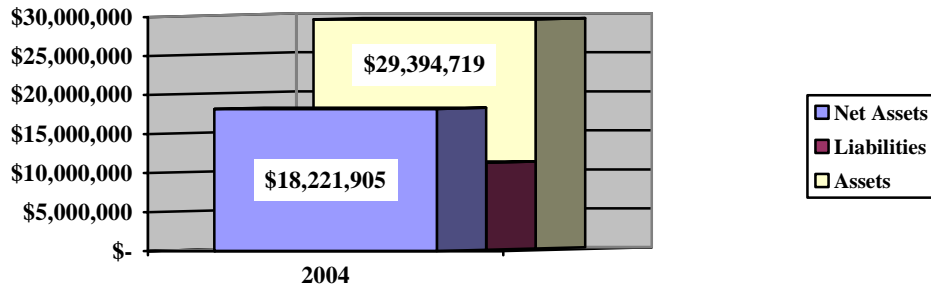
At year-end, capital assets represented 4.69% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$766,405. These 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

A portion of the District's net assets, \$17,220,973, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$234,527 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Revenues

Program revenues:	
Charges for services and sales	\$ 481,537
Operating grants and contributions	494,617
Capital grants and contributions	40,003
General revenues:	
Taxes	2,172,948
Grants and entitlements	3,850,870
Grants and entitlements restricted to Ohio Schools Facilities Construction	16,467,473
Investment earnings	115,588
Decrease in fair value of investments	(136,687)
Other	24,577
	<hr/>
Total revenues	23,510,926

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 2,721,592
Special	822,265
Vocational	173,455
Other	23,882
Support services:	
Pupil	373,457
Instructional staff	277,290
Board of education	38,614
Administration	618,389
Fiscal	248,922
Operations and maintenance	558,965
Pupil transportation	473,358
Central	82,822
Food service operations	268,771
Operations of non-instructional services	500
Extracurricular activities	298,243
Interest and fiscal charges	<u>130,442</u>
 Total expenses	 <u>7,110,967</u>
 Change in net assets	 16,399,959
Net assets at beginning of year	<u>1,821,946</u>
Net assets at end of year	<u>\$ 18,221,905</u>

Governmental Activities

Net assets of the District's governmental activities increased \$16,399,959. Total governmental expenses of \$7,110,967 were offset by program revenues of \$1,016,157 and general revenues of \$22,494,769. Program revenues supported 14.29% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 95.66% of total governmental revenue.

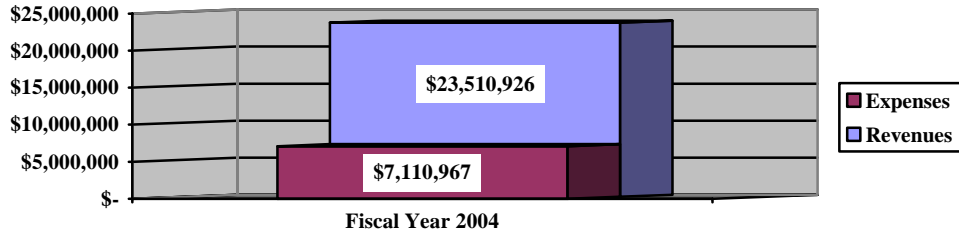
The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,741,194 or 52.61% of total governmental expenses for fiscal 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



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. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

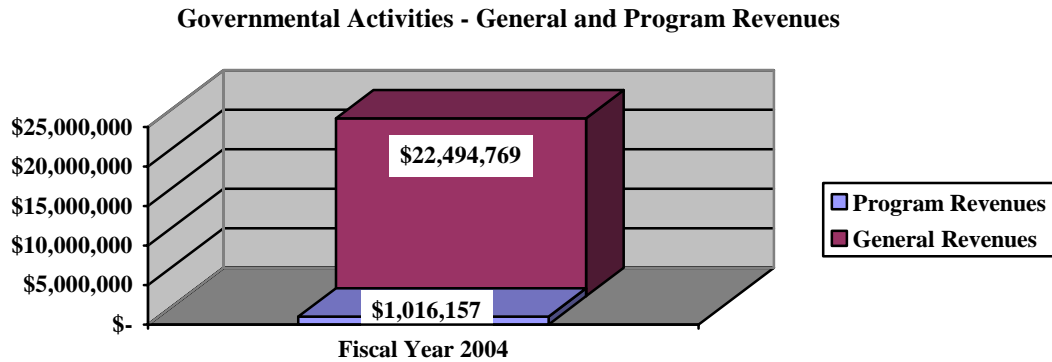
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 2,721,592	\$ 2,471,598
Special	822,265	566,874
Vocational	173,455	173,455
Other	23,882	1,625
Support services:		
Pupil	373,457	329,692
Instructional staff	277,290	235,194
Board of education	38,614	38,614
Administration	618,389	611,904
Fiscal	248,922	245,806
Operations and maintenance	558,965	541,393
Pupil transportation	473,358	473,358
Central	82,822	82,822
Food service operations	268,771	2,997
Operations of non-instructional services	500	500
Extracurricular activities	298,243	188,536
Interest and fiscal charges	<u>130,442</u>	<u>130,442</u>
Total expenses	<u><u>\$ 7,110,967</u></u>	<u><u>\$ 6,094,810</u></u>

The dependence upon tax and other general revenues for governmental activities is apparent, 85.90% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.71%. The District's taxpayers, as a whole, 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, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$10,150,614, which is higher than last year's total of \$1,175,544. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ 611,195	\$ 892,534	\$ (281,339)	(31.52) %
Bond Retirement	239,111	12,289	226,822	1,845.73 %
Building	2,973,102	-	2,973,102	100.00 %
Classroom Facilities	5,934,976	-	5,934,976	100.00 %
Other Governmental	<u>392,230</u>	<u>270,721</u>	<u>121,509</u>	44.88 %
Total	<u>\$10,150,614</u>	<u>\$ 1,175,544</u>	<u>\$ 8,975,070</u>	763.48 %

General Fund

The District's general fund balance decreased \$281,339 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$428,592. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,716,718	\$ 1,749,493	\$ (32,775)	(1.87) %
Tuition	35,236	23,861	11,375	47.67 %
Earnings on investments	18,750	25,482	(6,732)	(26.42) %
Intergovernmental	3,826,461	3,782,619	43,842	1.16 %
Other revenues	<u>15,589</u>	<u>52,742</u>	<u>(37,153)</u>	(70.44) %
Total	<u>\$ 5,612,754</u>	<u>\$ 5,634,197</u>	<u>\$ (21,443)</u>	(0.38) %
<u>Expenditures</u>				
Instruction	\$ 3,254,450	\$ 2,990,695	\$ 263,755	8.82 %
Support services	2,440,122	2,367,140	72,982	3.08 %
Extracurricular activities	224,384	165,612	58,772	35.49 %
Capital outlay	95,667	-	95,667	100.00 %
Debt service	<u>26,723</u>	<u>73,092</u>	<u>(46,369)</u>	(63.44) %
Total	<u>\$ 6,041,346</u>	<u>\$ 5,596,539</u>	<u>\$ 444,807</u>	7.95 %

Bond Retirement Fund

The District's bond retirement fund had \$8,273,700 in revenues and other financing sources and \$8,046,878 in expenditures. During fiscal year 2004, the bond retirement fund's fund balance increased \$226,822 from \$12,289 to \$239,111.

Building Fund

The District's building fund had \$3,190,659 in revenues and other financing sources and \$217,557 in expenditures. During fiscal year 2004, the building fund's fund balance increased to \$2,973,102.

Classroom Facilities Fund

The District's classroom facilities fund had \$5,934,976 in revenues and other financing sources. During fiscal year 2004, the classroom facilities fund's fund balance increased to \$5,934,976.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,830,581 and final budgeted revenues and other financing sources were \$5,878,081. Actual revenues and other financing sources for fiscal 2004 was \$5,735,567. This represents a \$142,514 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,396,640 were increased to \$6,445,924 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$6,045,236, which was \$400,688 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, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$1,379,214 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 42,500	\$ 42,500
Land improvements	20,080	22,311
Building and improvements	198,771	173,826
Furniture and equipment	651,118	541,056
Vehicles	249,188	284,571
Construction in progress	217,557	-
Total	\$ 1,379,214	\$ 1,064,264

The overall increase in capital assets of \$314,950 is due to capital outlays of \$472,299 exceeding depreciation expense of \$128,955 and disposals of \$28,394 (net of accumulated depreciation) in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$7,920,065 in general obligation bonds and \$150,306 in notes outstanding. Of this total, \$188,510 is due within one year and \$7,881,861 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
General obligation bonds	\$ 7,920,065	\$ -
General obligation notes	146,835	73,333
Energy conservation notes	3,471	20,730
Total	\$ 8,070,371	\$ 94,063

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, 2004
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. An increase in property tax revenue is expected in fiscal year 2005, due to the increased tax valuation caused by the triennial valuation update and a small growth in student population due to new housing. This additional tax revenue, along with the District's cash balance, will provide the District with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the District is not without challenges.

The District currently has a sufficient cash balance to meet operating expenses through fiscal year 2006. Unfortunately, fiscal year 2004 was the first year since the passage of the income tax in March 1996, first collected in January 1997, that operating expenses exceeded operating revenues. The one-half of one percent income tax generated approximately \$290,708 in fiscal year 2004. This income tax was passed for a continuing period of time.

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.

Enrollment over the past several years continues to be stable, with small increases in the elementary grades due to new housing. The District receives state funding based on a rolling three year average of student enrollment or the current year, whichever is higher.

Another challenge facing the District is the construction project undertaken through the Ohio School Facilities Commission (OSFC). Approximately \$24.2 million in one new PreK-12 school are scheduled under the OSFC project. All construction projects are expected to be completed in fiscal year 2007.

Since the District relies on the State for approximately 63% 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 District has not anticipated a significant growth in State revenue. 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.

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 citizen's taxpayers, and 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, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,166,582
Investments	6,316,405
Receivables:	
Taxes	2,266,101
Accounts	506
Intergovernmental	15,105,028
Accrued interest	2,948
Prepayments	13,813
Materials and supplies inventory	3,400
Unamortized bond issue costs	140,722
Capital assets:	
Land	42,500
Construction in progress	217,557
Depreciable capital assets, net	1,119,157
Capital assets, net.	<u>1,379,214</u>
Total assets.	<u>29,394,719</u>
Liabilities:	
Accounts payable.	43,683
Accrued wages and benefits	450,361
Pension obligation payable.	147,935
Intergovernmental payable	88,268
Deferred revenue	1,834,597
Accrued interest payable	56,816
Long-term liabilities:	
Due within one year.	240,644
Due in more than one year	8,310,510
Total liabilities	<u>11,172,814</u>
Net Assets:	
Invested in capital assets, net of related debt.	766,405
Restricted for:	
Capital projects	16,827,355
Debt service.	262,003
Other purposes	131,615
Unrestricted.	<u>234,527</u>
Total net assets	<u>\$ 18,221,905</u>

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, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 2,721,592	\$ 167,863	\$ 60,956	\$ 21,175	\$ (2,471,598)
Special	822,265	-	255,391	-	(566,874)
Vocational	173,455	-	-	-	(173,455)
Other	23,882	22,257	-	-	(1,625)
Support services:					
Pupil	373,457	-	43,765	-	(329,692)
Instructional staff	277,290	-	42,096	-	(235,194)
Board of education	38,614	-	-	-	(38,614)
Administration	618,389	-	6,485	-	(611,904)
Fiscal	248,922	-	1,860	1,256	(245,806)
Operations and maintenance	558,965	-	-	17,572	(541,393)
Pupil transportation	473,358	-	-	-	(473,358)
Central	82,822	-	-	-	(82,822)
Operation of non-instructional services:					
Food service operations	268,771	181,710	84,064	-	(2,997)
Other non-instructional services	500	-	-	-	(500)
Extracurricular activities	298,243	109,707	-	-	(188,536)
Interest and fiscal charges	130,442	-	-	-	(130,442)
Total governmental activities	\$ 7,110,967	\$ 481,537	\$ 494,617	\$ 40,003	(6,094,810)

General Revenues:

Property taxes levied for:	
General purposes	1,421,041
Special revenue	20,464
Debt service	268,741
Capital projects	171,994
School district income tax	290,708
Grants and entitlements not restricted to specific programs	3,850,870
Grants and entitlements restricted to Ohio Schools Facilities Construction	16,467,473
Investment earnings	115,588
Decrease in fair value of investments	(136,687)
Miscellaneous	24,577
Total general revenues	22,494,769
Change in net assets	16,399,959
Net assets at beginning of year	1,821,946
Net assets at end of year	\$ 18,221,905

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents	\$ 921,310	\$ 202,641	\$ 2,595,911	\$ -	\$ 422,328	\$ 4,142,190
Investments	-	-	377,191	5,934,976	4,238	6,316,405
Receivables:						
Taxes	1,598,460	449,983	-	-	217,658	2,266,101
Accounts	32	-	-	-	474	506
Intergovernmental	-	-	-	15,050,224	54,804	15,105,028
Accrued interest	2,948	-	-	-	-	2,948
Interfund receivable	8,000	-	-	-	-	8,000
Prepayments	13,813	-	-	-	-	13,813
Materials and supplies inventory	-	-	-	-	3,400	3,400
Restricted assets:						
Equity in pooled cash and cash equivalents	24,392	-	-	-	-	24,392
Total assets	<u>\$ 2,568,955</u>	<u>\$ 652,624</u>	<u>\$ 2,973,102</u>	<u>\$ 20,985,200</u>	<u>\$ 702,902</u>	<u>\$ 27,882,783</u>
Liabilities:						
Accounts payable	\$ 40,736	\$ -	\$ -	\$ -	\$ 2,947	\$ 43,683
Accrued wages and benefits	419,629	-	-	-	30,732	450,361
Pension obligation payable	89,096	-	-	-	5,936	95,032
Intergovernmental payable	74,325	-	-	-	13,943	88,268
Interfund payable	-	-	-	-	8,000	8,000
Deferred revenue	1,333,974	413,513	-	15,050,224	249,114	17,046,825
Total liabilities	<u>1,957,760</u>	<u>413,513</u>	<u>-</u>	<u>15,050,224</u>	<u>310,672</u>	<u>17,732,169</u>
Fund Balances:						
Reserved for encumbrances	25,867	-	23,437	-	475	49,779
Reserved for materials and supplies inventory	-	-	-	-	3,400	3,400
Reserved for prepayments	13,813	-	-	-	-	13,813
Reserved for property tax unavailable for appropriation	127,100	36,470	-	-	17,310	180,880
Reserved for BWC refunds	24,392	-	-	-	-	24,392
Reserved for debt service	-	202,641	-	-	-	202,641
Unreserved, undesignated, reported in:						
General fund	420,023	-	-	-	-	420,023
Special revenue funds	-	-	-	-	104,622	104,622
Capital projects funds	-	-	2,949,665	5,934,976	266,423	9,151,064
Total fund balances	<u>611,195</u>	<u>239,111</u>	<u>2,973,102</u>	<u>5,934,976</u>	<u>392,230</u>	<u>10,150,614</u>
Total liabilities and fund balances	<u>\$ 2,568,955</u>	<u>\$ 652,624</u>	<u>\$ 2,973,102</u>	<u>\$ 20,985,200</u>	<u>\$ 702,902</u>	<u>\$ 27,882,783</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, 2004**

Total governmental fund balances		\$ 10,150,614
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,379,214
Federal donated commodities are not reported in the funds.		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 113,238	
Intergovernmental revenue	<u>15,098,990</u>	
Total		15,212,228
Unamortized bond issuance costs are not recognized in the funds.		140,722
Unamortized premiums on bond issuances are not recognized in the funds.		(143,102)
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	(7,775,265)	
General obligation notes payable	(36,710)	
Energy conservation notes payable	(3,471)	
Notes payable	(110,125)	
Capital lease obligation payable	(101,844)	
Accrued interest payable	(58,514)	
Compensated absences payable	(378,939)	
Pension obligation payable	<u>(52,903)</u>	
Total		<u>(8,517,771)</u>
Net assets of governmental activities		<u><u>\$ 18,221,905</u></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, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
From local sources:						
Taxes	\$ 1,716,718	\$ 245,849	\$ -	\$ -	\$ 191,254	\$ 2,153,821
Tuition.	35,236	-	-	-	-	35,236
Earnings on investments.	18,750	-	68,433	1,240	629	89,052
Charges for services.	-	-	-	-	308,598	308,598
Extracurricular.	-	-	-	-	115,446	115,446
Classroom materials and fees	-	-	-	-	22,257	22,257
Other local revenues.	15,589	-	-	-	8,988	24,577
Intergovernmental - State.	3,826,461	24,409	-	1,417,249	44,853	5,312,972
Intergovernmental - Federal	-	-	-	-	448,880	448,880
Decrease in fair value.	-	-	(8,174)	(128,513)	-	(136,687)
Total revenues.	<u>5,612,754</u>	<u>270,258</u>	<u>60,259</u>	<u>1,289,976</u>	<u>1,140,905</u>	<u>8,374,152</u>
Expenditures:						
Current:						
Instruction:						
Regular	2,493,562	-	-	-	238,758	2,732,320
Special.	590,872	-	-	-	232,279	823,151
Vocational.	170,016	-	-	-	-	170,016
Other.	-	-	-	-	23,882	23,882
Support services:						
Pupil.	324,691	-	-	-	45,065	369,756
Instructional staff	229,328	-	-	-	43,625	272,953
Board of education	38,526	-	-	-	-	38,526
Administration.	592,772	-	-	-	21,899	614,671
Fiscal	223,545	4,960	-	-	4,628	233,133
Operations and maintenance.	505,489	-	-	-	59,523	565,012
Pupil transportation	447,486	-	-	-	-	447,486
Central.	78,285	-	-	-	-	78,285
Other non-instructional services.	-	-	-	-	500	500
Food service operations	-	-	-	-	267,111	267,111
Extracurricular activities.	224,384	-	-	-	82,126	306,510
Facilities acquisition and construction	-	-	217,557	-	-	217,557
Capital outlay.	95,667	-	-	-	-	95,667
Debt service:						
Principal retirement	23,072	7,829,282	-	-	-	7,852,354
Interest and fiscal charges	3,651	71,914	-	-	-	75,565
Bond issuance costs	-	140,722	-	-	-	140,722
Total expenditures	<u>6,041,346</u>	<u>8,046,878</u>	<u>217,557</u>	<u>-</u>	<u>1,019,396</u>	<u>15,325,177</u>
Excess of revenues over (under) expenditures.	<u>(428,592)</u>	<u>(7,776,620)</u>	<u>(157,298)</u>	<u>1,289,976</u>	<u>121,509</u>	<u>(6,951,025)</u>
Other financing sources (uses):						
Transfers in.	-	58,539	-	-	-	58,539
Transfers (out)	(58,539)	-	-	-	-	(58,539)
Proceeds from capital lease.	95,667	-	-	-	-	95,667
Proceeds from sale of bonds	-	7,775,265	-	-	-	7,775,265
Proceeds from sale of notes.	110,125	-	3,130,400	4,645,000	-	7,885,525
Premium on sale of bonds	-	143,102	-	-	-	143,102
Accrued interest on sale of bonds.	-	26,536	-	-	-	26,536
Total other financing sources (uses)	<u>147,253</u>	<u>8,003,442</u>	<u>3,130,400</u>	<u>4,645,000</u>	<u>-</u>	<u>15,926,095</u>
Net change in fund balances	(281,339)	226,822	2,973,102	5,934,976	121,509	8,975,070
Fund balances at beginning of year (restated)	<u>892,534</u>	<u>12,289</u>	<u>-</u>	<u>-</u>	<u>270,721</u>	<u>1,175,544</u>
Fund balances at end of year.	<u>\$ 611,195</u>	<u>\$ 239,111</u>	<u>\$ 2,973,102</u>	<u>\$ 5,934,976</u>	<u>\$ 392,230</u>	<u>\$ 10,150,614</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, 2004

Net change in fund balances - total governmental funds	\$	8,975,070
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$472,299) exceeds depreciation expense (\$128,955) current period.		343,344
The net effect of various miscellaneous transactions involving capital assets (i.e.: disposals, sales, trade-ins, and donations) is to decrease net assets.		(28,394)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		15,110,238
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		140,722
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(143,102)
Repayment of bond, note, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		7,852,354
Capital lease obligation payable balance forgiven as part of a lease trade-in agreement. This reduces long-term liabilities on the statement of net assets.		16,912
Proceeds of bonds, notes, and capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(15,756,457)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(54,877)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(55,851)
Change in net assets of governmental activities	\$	16,399,959

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,727,364	\$ 1,741,436	\$ 1,699,215	\$ (42,221)
Tuition.	35,820	36,112	35,236	(876)
Earnings on investments.	16,665	16,801	16,394	(407)
Other local revenues	14,889	15,010	14,646	(364)
Intergovernmental - State	<u>3,889,850</u>	<u>3,921,539</u>	<u>3,826,461</u>	<u>(95,078)</u>
Total revenues.	<u>5,684,588</u>	<u>5,730,898</u>	<u>5,591,952</u>	<u>(138,946)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,672,500	2,693,091	2,525,685	167,406
Special.	584,114	588,614	552,025	36,589
Vocational.	182,293	183,698	172,279	11,419
Support services:				
Pupil.	339,155	341,768	320,523	21,245
Instructional staff	240,296	242,147	227,095	15,052
Board of education	41,147	41,464	38,887	2,577
Administration.	637,459	642,371	602,440	39,931
Fiscal	240,919	242,775	227,684	15,091
Operations and maintenance.	538,131	542,277	508,568	33,709
Pupil transportation	498,106	501,944	470,742	31,202
Central.	89,777	90,469	84,845	5,624
Extracurricular activities.	<u>242,062</u>	<u>243,927</u>	<u>228,764</u>	<u>15,163</u>
Total expenditures	<u>6,305,959</u>	<u>6,354,545</u>	<u>5,959,537</u>	<u>395,008</u>
Excess of revenues over (under) expenditures.	<u>(621,371)</u>	<u>(623,647)</u>	<u>(367,585)</u>	<u>256,062</u>
Other financing sources (uses):				
Refund of prior year expenditure.	1,942	1,958	1,912	(46)
Transfers (out)	(61,942)	(62,419)	(58,539)	3,880
Advances in.	32,229	32,492	31,703	(789)
Advances (out)	(28,739)	(28,960)	(27,160)	1,800
Proceeds from sale of notes.	<u>111,822</u>	<u>112,733</u>	<u>110,000</u>	<u>(2,733)</u>
Total other financing sources (uses)	<u>55,312</u>	<u>55,804</u>	<u>57,916</u>	<u>2,112</u>
Net change in fund balance	(566,059)	(567,843)	(309,669)	258,174
Fund balance at beginning of year.	1,165,984	1,165,984	1,165,984	-
Prior year encumbrances appropriated	52,413	52,413	52,413	-
Fund balance at end of year	<u>\$ 652,338</u>	<u>\$ 650,554</u>	<u>\$ 908,728</u>	<u>\$ 258,174</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, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,342	\$ 34,483
Investments	5,200	-
Receivables:		
Accrued interest.	128	-
Total assets.	6,670	\$ 34,483
Liabilities:		
Intergovernmental payable	-	\$ 360
Due to students	-	34,123
Total liabilities	-	\$ 34,483
Net Assets:		
Held in trust for scholarships	6,670	
Total net assets	\$ 6,670	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private-Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Interest	\$ 295
Total additions.	<u>295</u>
Deductions:	
Scholarships awarded	<u>180</u>
Change in net assets	115
Net assets at beginning of year	<u>6,555</u>
Net assets at end of year	<u><u>\$ 6,670</u></u>

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, 2004**

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 1 building that is composed of its elementary, middle school and high school. The District employs 34 non-certified and 61 certified (including administrative) full-time and part-time employees to provide services to approximately 848 students in grades K through 12 and various community groups, which ranks it 536th out of 613 public school districts 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) Statements and Interpretations issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Career Center

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio, which possesses its own budgeting and taxing authority. The Vocational School 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 administrative and instructional function amount 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 members school districts and the degree of control is limited to the representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

RELATED ORGANIZATIONS

Mechanicsburg Public Library

The Mechanicsburg Public Library is an organization related to the District. The School Board members are responsible for appointing the trustees of the Public 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 2004.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

Building Fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the construction and replacement of facilities for the instruction of students in job skills. All proceeds from the sale of bonds must be paid into this fund. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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; and (b) for grants and other resources whose use is restricted to a particular purpose.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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 2004 is as follows:

1. Prior to January 15 of the preceding year, 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
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 June 30, 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 final Amended Certificate issued for fiscal year 2004.
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, 2004, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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 in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Investments" on the basic financial statements.

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, food service fund, special trust fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$18,750, which includes \$5,544 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 Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

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

On the fund financial statements, reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid 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, compensated absences, and contractually required pension contributions 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.

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, BWC refunds, and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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.

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 to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

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. 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 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 884,501	\$ 12,289	\$ 218,100	\$ 1,114,890
Fund reclassifications	-	-	52,621	52,621
Implementation of GASB Interpretation No. 6	<u>8,033</u>	<u>-</u>	<u>-</u>	<u>8,033</u>
Restated fund balance, June 30, 2003	<u>\$ 892,534</u>	<u>\$ 12,289</u>	<u>\$ 270,721</u>	<u>\$ 1,175,544</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 1,175,544
GASB 34 adjustments:	
Long-term (deferred) assets	101,990
Capital assets	1,064,264
Accrued interest payable	(3,637)
Pension obligations	(48,560)
Long-term liabilities	(467,655)
Governmental activities net assets, June 30, 2003	<u>\$ 1,821,946</u>

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Internal Service Rotary	\$ 9,182
Entry Year Programs	25
Disadvantaged Pupil Impact Aid	82
Summer Intervention	115
Title VI-B	10,483
Title I	4,984
Title VI	1,500

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund's portion of this pool is displayed in the basic financial statements as "Equity in Pooled Cash and Cash Equivalents" and "Investments". Statutes require the classification of 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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 accounts, including passbook accounts.

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

Interim monies 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 or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Cash on Hand: At fiscal year-end, the District had \$2,900 in undeposited cash on hand which is included on the basic financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents.”

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements”.

Deposits: At year-end, the carrying amount of the District’s deposits was \$1,637,105 and the bank balance was \$1,676,941. Both amounts include \$9,438 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$209,438 was covered by federal depository insurance; and
2. \$1,467,503 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the District’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District’s name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency securities	\$ 6,321,605	\$ 6,321,605	\$ 6,321,605
	<u>\$ 6,321,605</u>		
Investment in STAR Ohio		<u>2,562,402</u>	<u>2,562,402</u>
Total investments		<u>\$ 8,884,007</u>	<u>\$ 8,884,007</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,202,407	\$ 6,321,605
Investments of the cash management pool:		
Investment in STAR Ohio	(2,562,402)	2,562,402
Cash on hand	<u>(2,900)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 1,637,105</u>	<u>\$ 8,884,007</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2004 as reported on the fund 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	\$ 8,000

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, 2004 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers from General fund to:	
Bond Retirement fund	\$ 58,539

Transfers are used to 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 to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Champaign County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$127,100 in the general fund, \$36,470 in the bond retirement fund, \$14,550 in the permanent improvement fund and \$2,760 in the classroom facilities maintenance fund. The amount available as an advance at June 30, 2003 was, \$124,810 in the general fund and \$14,300 in the permanent improvement fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 63,269,820	94.84	\$ 62,374,840	90.56
Public utility personal	3,445,059	5.16	3,364,480	4.89
Tangible personal property	<u>-</u>	<u>-</u>	<u>3,137,766</u>	<u>4.55</u>
Total	<u>\$ 66,714,879</u>	<u>100.00</u>	<u>\$ 68,877,086</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 31.30		\$ 29.80	
Permanent Improvement	5.00		5.00	
Debt Service	-		6.56	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), 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	\$ 2,266,101
Accounts	506
Intergovernmental	15,105,028
Accrued interest	<u>2,948</u>
Total	<u>\$17,374,583</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 half of one 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 \$290,708 for fiscal year 2004. Taxes receivable reported in the basic financial statements includes \$137,386 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, 2004

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated for errors and omissions, fund reclassification and the implementation of GASB Statement No. 34.

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities:			
Capital assets, not being depreciated:			
Land	\$ -	\$ 42,500	\$ 42,500
Total capital assets, not being depreciated	<u>-</u>	<u>42,500</u>	<u>42,500</u>
Capital assets, being depreciated:			
Land improvements	5,754	19,036	24,790
Buildings and improvements	2,843,891	(42,707)	2,801,184
Furniture and equipment	992,568	17,315	1,009,883
Vehicles	<u>613,276</u>	<u>(12,125)</u>	<u>601,151</u>
Total capital assets, being depreciated	<u>4,455,489</u>	<u>(18,481)</u>	<u>4,437,008</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(3,415,244)</u>	<u>(3,415,244)</u>
Governmental activities capital assets, net	<u>\$ 4,455,489</u>	<u>\$ (3,391,225)</u>	<u>\$ 1,064,264</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 42,500	\$ -	\$ -	\$ 42,500
Construction in progress	<u>-</u>	<u>217,557</u>	<u>-</u>	<u>217,557</u>
Total capital assets, not being depreciated	<u>42,500</u>	<u>217,557</u>	<u>-</u>	<u>260,057</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	24,790	-	-	24,790
Buildings and improvements	2,801,184	38,022	-	2,839,206
Furniture and equipment	1,009,883	216,720	(96,491)	1,130,112
Vehicles	<u>601,151</u>	<u>-</u>	<u>-</u>	<u>601,151</u>
Total capital assets, being depreciated	<u>4,437,008</u>	<u>254,742</u>	<u>(96,491)</u>	<u>4,595,259</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(2,479)	(2,231)	-	(4,710)
Buildings and improvements	(2,627,358)	(13,077)	-	(2,640,435)
Furniture and equipment	(468,827)	(78,264)	68,097	(478,994)
Vehicles	<u>(316,580)</u>	<u>(35,383)</u>	<u>-</u>	<u>(351,963)</u>
Total accumulated depreciation	<u>(3,415,244)</u>	<u>(128,955)</u>	<u>68,097</u>	<u>(3,476,102)</u>
Governmental activities capital assets, net	<u>\$ 1,064,264</u>	<u>\$ 343,344</u>	<u>\$ (28,394)</u>	<u>\$ 1,379,214</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 39,076
Special	3,220
Vocational	2,014
<u>Support Services:</u>	
Pupil	1,146
Instructional staff	862
Administration	7,749
Fiscal	988
Operations and maintenance	15,425
Pupil transportation	42,656
Central	2,920
Extracurricular activities	4,965
Facilities acquisition and construction	5,963
Food service operations	<u>1,971</u>
Total depreciation expense	<u>\$ 128,955</u>

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, and in the current year, the District has entered into leases for the acquisition of copiers and buses. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. The capital lease transactions were accounted for as capital outlay expenditures and other financing sources in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. These expenditures are reflected as function expenditures on a budgetary basis.

General capital assets acquired by capital lease have been capitalized in the amount of \$241,707, which is equal to the present value of the future minimum lease payments as of the date of their inception. Principal payments in fiscal year 2004 totaled \$23,072. \$16,912 of additional reductions in Note 11A. is due to switching out of capital lease obligations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2004.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 23,148
2006	26,197
2007	20,664
2008	20,664
2009	<u>18,942</u>
Total minimum lease payments	109,615
Less: amount representing interest	<u>(7,771)</u>
Total	<u><u>\$101,844</u></u>

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability has been restated by \$8,033 from \$314,248 to \$322,281 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, the pension obligations of \$40,969 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end and are reported separately on the statement of net assets. The total effect on governmental activities long-term obligations was a decrease of \$32,936 from \$495,441 to \$462,505.

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation					
current interest bonds	\$ -	\$ 7,580,000	\$ -	\$ 7,580,000	\$ 110,000
General obligation					
current interest bonds-premium	-	143,102	-	143,102	9,540
General obligation					
capital appreciation bonds	-	195,265	-	195,265	-
General obligation capital appreciation					
bonds-accreted interest	-	1,698	-	1,698	-
Bond anticipation notes payable	-	7,775,400	(7,775,400)	-	-
General obligation notes payable	73,333	-	(36,623)	36,710	36,710
Energy conservation notes payable	20,730	-	(17,259)	3,471	3,471
Notes payable	-	110,125	-	110,125	28,789
Capital lease obligation payable	46,161	95,667	(39,984)	101,844	20,356
Compensated absences payable	<u>322,281</u>	<u>75,509</u>	<u>(18,851)</u>	<u>378,939</u>	<u>31,778</u>
Total long-term obligations	<u>\$ 462,505</u>	<u>\$15,976,766</u>	<u>\$(7,888,117)</u>	<u>\$8,551,154</u>	<u>\$ 240,644</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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 present value reported on the statement of net assets at June 30, 2004 is \$195,265. Total accreted interest of \$1,698 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.

General obligation notes, series 2002: The general obligation notes, series 2002, were issued on September 27, 2001, mature on October 1, 2004, and carry an interest rate of 4.75%. The general obligation notes were issued in the amount of \$110,000 in order to finance the purchase of school buses.

Energy conservation notes, series 1997: The energy conservation notes, series 1997, were issued on August 15, 1996, mature on August 1, 2004, and carry an interest rate of 5.49%. The energy conservation notes were issued in order to provide for energy improvements to District facilities, and the source of payment is derived through the energy savings attained as a result of the energy improvements.

Notes payable, series 2004: The notes payable, series 2004, were issued on April 19, 2004, mature on July 1, 2007, and carry an interest rate of 5.00%. The notes payable were issued in the amount of \$110,125 in order to finance the purchase of school buses.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004 are as follows:

<u>Year Ended</u>	<u>Current Interest Bonds, Series 2004</u>			<u>Capital Appreciation Bonds, Series 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 110,000	\$ 219,604	\$ 329,604	\$ -	\$ -	\$ -
2006	150,000	327,207	477,207	-	-	-
2007	165,000	324,207	489,207	-	-	-
2008	175,000	320,907	495,907	-	-	-
2009	190,000	316,969	506,969	-	-	-
2010 - 2014	835,265	1,757,897	2,593,162	440,000	-	440,000
2015 - 2019	1,250,000	1,351,900	2,601,900	-	-	-
2020 - 2024	1,540,000	1,054,896	2,594,896	-	-	-
2025 - 2029	1,945,000	653,008	2,598,008	-	-	-
2030 - 2032	<u>1,415,000</u>	<u>143,750</u>	<u>1,558,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>7,775,265</u>	\$ <u>6,470,345</u>	\$ <u>14,245,610</u>	\$ <u>440,000</u>	\$ <u>-</u>	\$ <u>440,000</u>

<u>Year Ended</u>	<u>General Obligation Notes, Series 2002</u>			<u>Energy Conservation Notes, Series 1997</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>36,710</u>	<u>1,864</u>	<u>38,574</u>	<u>3,471</u>	<u>82</u>	<u>3,553</u>
Total	\$ <u>36,710</u>	\$ <u>1,864</u>	\$ <u>38,574</u>	\$ <u>3,471</u>	\$ <u>82</u>	\$ <u>3,553</u>

<u>Year Ended</u>	<u>Notes Payable, Series 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 28,789	\$ 1,117	\$ 29,906
2006	25,783	4,123	29,906
2007	27,090	2,816	29,906
2008	<u>28,463</u>	<u>1,443</u>	<u>29,906</u>
Total	\$ <u>110,125</u>	\$ <u>9,499</u>	\$ <u>119,624</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 of Ohio, Inc., a fully funded program. The District has elected to provide employee dental insurance, life insurance, accidental death and dismemberment insurance through G. E. Financial Assurance, a fully funded program.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

During fiscal year 2004, the District contracted with Selective Insurance Company for property and fleet insurance, liability insurance and inland marine coverage. Coverage's provided by Selective Insurance Company are as follows:

Building and contents - replacement cost	\$14,666,600
Automobile liability	1,000,000
Uninsured motorists	100,000
Crime	5,000
General liability:	
Per occurrence	1,000,000
Total per year	3,000,000

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

There has been no significant reduction in coverage from fiscal year 2003.

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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 workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$106,606, \$95,158, and \$96,482, respectively; 43.49% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$60,240, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$429,707, \$380,150, and \$362,737, respectively; 82.56% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$74,952 represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$30,693 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$47,284 during the 2004 fiscal year.

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);
- (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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (309,669)
Net adjustment for revenue accruals	20,802
Net adjustment for expenditure accruals	(118,783)
Net adjustment for other sources/uses	89,337
Adjustment for encumbrances	<u>36,974</u>
GAAP basis	<u>\$ (281,339)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refund</u>
Set-aside cash balance/carry forward as of June 30, 2003 (Restated)	\$ (23,976)	\$ (270,262)	\$ 24,392
Current year set-aside requirement	121,705	121,705	-
Current year offsets	-	(7,918,367)	-
Qualifying disbursements	<u>(193,317)</u>	<u>(55,198)</u>	<u>-</u>
Total	<u>\$ (95,588)</u>	<u>\$(8,122,122)</u>	<u>\$ 24,392</u>
Cash balance carried forward to FY 2005	<u>\$ (95,588)</u>	<u>\$(8,122,122)</u>	<u>\$ 24,392</u>

The District restated its balances at June 30, 2004 to properly state cash balance and carry forward. The District had qualifying disbursements during the year that reduced the instructional materials set-a-side amount below zero. In addition, the District had offsets and qualifying disbursements that reduced the capital acquisition set-a-side amount below zero. The current year offset in the Capital Acquisition set-aside may be carried forward to offset future years requirements.

A schedule of the restricted assets at June 30, 2004 follows:

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

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Mechanicsburg Exempted Village School District’s basic financial statements and have issued our report thereon dated February 25, 2005. During the fiscal year ended June 30, 2004, the Mechanicsburg Exempted Village School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, the District had a prior period adjustment to its capital assets due to errors and omissions as disclosed in Note 9.A. 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 Control Over Financial Reporting

In planning and performing our audit, we considered Mechanicsburg Exempted Village School District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Mechanicsburg Exempted Village School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mechanicsburg Exempted Village School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of Mechanicsburg Exempted Village School District, Champaign County, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
February 25, 2005



**Auditor of State
Betty Montgomery**

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**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, 2005**