

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

SINGLE AUDIT

JULY 1, 2005 - JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
Mount Vernon City School District
300 Newark Road
Mount Vernon, Ohio 43050-4510

We have reviewed the *Independent Auditors' Report* of the Mount Vernon City School District, Knox County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2005 through June 30, 2006. 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 Mount Vernon City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 27, 2007

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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

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KNOX COUNTY**

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Board of Education
Mount Vernon City School District
300 Newark Road
Mount Vernon, Ohio 43050

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio (the District) as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Mount Vernon City School District
Knox County
Independent Auditors' Report

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

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

Wilson, Shannon & Sons, Inc.

Newark, Ohio
December 18, 2006

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The discussion and analysis of the financial performance of Mount Vernon City School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

In total, net assets increased \$2,286,165.

General revenues and a special item accounted for \$33,387,902, or 87% of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$5,062,007, or 13% of total revenues of \$38,449,909.

The District's major fund included the General Fund. The General Fund had \$31,454,013 in revenues and \$29,410,778 in expenditures and other financing uses. The General Fund's balance increased \$2,043,235 from the prior fiscal year.

The revenue generated from the Nonmajor Bond Retirement Fund is used to pay for the current portion of bonded debt.

The District has one outstanding energy conservation loan for ten years approved June 15, 2002.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater 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 non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund is the only major fund.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

While these documents contain information about the large number of funds used by the District to provide programs and activities for students, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 District discloses a single type of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The General Fund is the District's most significant major governmental fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006. A comparative analysis of fiscal year 2006 to 2005 follows:

**Table 1
Net Assets
Governmental Activities**

| | 2006 | 2005 |
|---|--------------|--------------|
| <u>Assets:</u> | | |
| Current and Other Assets | \$33,438,705 | \$32,763,005 |
| Capital Assets, Net | 21,514,736 | 22,115,403 |
| Total Assets | 54,953,441 | 54,878,408 |
| <u>Liabilities:</u> | | |
| Current and Other Liabilities | 14,657,732 | 16,294,087 |
| Long-Term Liabilities | 9,818,691 | 10,393,468 |
| Total Liabilities | 24,476,423 | 26,687,555 |
| <u>Net Assets:</u> | | |
| Invested in Capital Assets, Net of Related Debt | 12,945,571 | 13,011,231 |
| Restricted | 5,491,445 | 4,767,125 |
| Unrestricted | 12,040,002 | 10,412,497 |
| Total | \$30,477,018 | \$28,190,853 |

Total assets increased \$75,033 which was primarily attributed to increases in cash and receivables off-set by changes in capital assets.

Total liabilities decreased \$2,211,132. There was a decrease of \$574,777 net reduction of long-term liabilities and a decrease of \$1,636,355 in current and other liabilities.

The significant change in the long-term liabilities is a result of the District continuing to repay its outstanding debt.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

Table 2 reflects the changes in net assets for fiscal year 2006. A comparative analysis of fiscal year 2006 to 2005 follows:

**Table 2
Change in Net Assets
Governmental Activities**

| | 2006 | 2005 |
|--|--------------|--------------|
| <u>Revenues:</u> | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$1,824,323 | \$1,803,156 |
| Operating Grants, Contributions and Interest | 3,237,684 | 3,417,887 |
| Total Program Revenues | 5,062,007 | 5,221,043 |
| General Revenues: | | |
| Property Taxes | 17,330,758 | 12,732,375 |
| Grants and Entitlements | 13,773,591 | 13,177,925 |
| Interest | 694,138 | 397,748 |
| Gifts and Donations | 9,943 | 24,001 |
| Sale of Land | 137,500 | - |
| Miscellaneous | 591,972 | 483,081 |
| Total General Revenues | 32,537,902 | 26,815,130 |
| Special Item | 850,000 | 156,698 |
| Total Revenues | 38,449,909 | 32,192,871 |
| <u>Expenses:</u> | | |
| Instruction | 20,098,915 | 21,185,394 |
| Support Services: | | |
| Pupils | 1,557,509 | 1,543,461 |
| Instructional Staff | 1,912,135 | 1,976,421 |
| Board of Education | 49,925 | 48,119 |
| Administration | 2,094,497 | 2,207,055 |
| Fiscal | 2,287,391 | 2,056,264 |
| Business | 179,018 | 202,441 |
| Operation and Maintenance of Plant | 4,121,014 | 2,620,311 |
| Pupil Transportation | 1,441,201 | 1,230,330 |
| Central | 25,156 | 19,699 |
| Non-Instructional | 1,412,979 | 1,328,808 |
| Extracurricular Activities | 649,075 | 633,550 |
| Interest and Fiscal Charges | 334,929 | 396,269 |
| Total Expenses | 36,163,744 | 35,448,122 |
| Change in Net Assets | 2,286,165 | (3,255,251) |
| Net Assets Beginning of Year | 28,190,853 | 31,446,104 |
| Net Assets End of Year | \$30,477,018 | \$28,190,853 |

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35 annually in taxes. If three years later, the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would be .5 mills and the owner would still pay \$35.

Our District, which is dependent on property taxes and income taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 45 percent of revenues for governmental activities for the District in fiscal year 2006.

Over the past several years the District has experienced a significant amount of growth. The District is located in Knox County, and includes the City of Mount Vernon, all of the Village of Gambier, and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships in Knox County. The total assessed values upon which taxes are collected increased by \$41,412,245 from fiscal year 2005 to fiscal year 2006.

Instruction comprises approximately 55 percent of governmental program expenses, and support services make up approximately 39 percent of the program expenses of the District.

Property tax revenue increased \$4,598,383. The increase was attributed to the collection of delinquent taxes and the reappraisal of real property in fiscal year 2005.

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**Table 3
Governmental Activities**

| | Total Cost of 2006 | Net Cost of 2006 | Total Cost of 2005 | Net Cost of 2005 |
|------------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| Instruction | \$20,098,915 | \$16,564,922 | \$21,185,394 | \$17,524,238 |
| Support Services: | | | | |
| Pupils | 1,557,509 | 1,507,923 | 1,543,461 | 1,486,559 |
| Instructional Staff | 1,912,135 | 1,901,780 | 1,976,421 | 1,972,011 |
| Board of Education | 49,925 | 49,925 | 48,119 | 48,119 |
| Administration | 2,094,497 | 2,094,297 | 2,207,055 | 2,202,668 |
| Fiscal | 2,287,391 | 2,274,059 | 2,056,264 | 2,043,687 |
| Business | 179,018 | 179,018 | 202,441 | 163,085 |
| Operation and Maintenance of Plant | 4,121,014 | 4,094,014 | 2,620,311 | 2,593,311 |
| Pupil Transportation | 1,441,201 | 1,441,201 | 1,230,330 | 1,230,330 |
| Central | 25,156 | 25,156 | 19,699 | 19,699 |
| Non-Instructional | 1,412,979 | 95,190 | 1,328,808 | 33,495 |
| Extracurricular Activities | 649,075 | 539,323 | 633,550 | 513,608 |
| Interest and Fiscal Charges | 334,929 | 334,929 | 396,269 | 396,269 |
| Total Expenses | \$36,163,744 | \$31,101,737 | \$35,448,122 | \$30,227,079 |

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 82 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 86 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of \$38,489,567 and expenditures and other financing uses of \$36,175,724. The net positive change of \$2,313,843 in fund balance for the year indicates the District's ability to meet current costs.

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 year 2006, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$31,086,658 while actual expenditures were \$30,517,971. The \$568,687 difference is primarily due to a conservative "worst case scenario" approach. The District appropriates total estimated resources available regardless of need.

The final estimated receipts of \$20,879,037 while actual receipts were \$29,204,211. The net change in fund balance was (\$1,313,760).

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had \$21,514,736 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see the notes to the basic financial statements.

Debt

At June 30, 2006, the District had \$7,900,000 in Bond Retirement for general obligation bonds to build the Mount Vernon Middle School. One bond was issued for a ten-year period, with final maturity on December 1, 2003. The other bond was issued for a twenty-five year period, with final maturity on December 1 2019. These bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2006, the District's overall legal debt margin was \$42,212,169, with an un-voted debt margin of \$557,199.

For further information regarding the District's debt, see the notes to the basic financial statements.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

Current Issues

The District continues to receive strong support from the residents. The District relies heavily on its local property taxpayers. The last operating levy, a 3 mill renewal, passed by the residents of the District was in November 2005 and is expected to generate \$1,625,000 over the next five years.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education 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. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the District. Another District concern will be the State Legislative approval of the biennial budget, effective July 1, 2006. How the legislature plans to fund education programs during a weakened economy remains a concern.

The District will be impacted by the changes attributed with House Bill No. 66 and the elimination of personal property taxes. The District has not determined a viable source of revenue to replace the anticipated loss of revenues in conjunction with this legislation.

The District current five-year forecast is projecting deficit spending at the end of fiscal year 2011 of (\$243,347), with positive ending cash balances for fiscal years 2007 through 2010 of \$8,629,388, \$7,836,319, \$5,975,910, and \$3,121,944, respectively.

To achieve the aforementioned projected cash balances, the Board of Education and administration of the District must continue to maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Along with the challenges set forth for the District to ensure positive operating cash flow within the General fund, the need for improved and new school facilities is ever pertinent. However, the District was unsuccessful in passing a local levy to meet the requirements set forth by the Ohio School Facilities Commission to begin construction. The District will evaluate the need to place future levies on the ballot related to the Ohio School Facilities Program.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Nancy L. Sinclair, Treasurer, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006**

| | <u>Governmental Activities</u> |
|---|---|
| ASSETS: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 15,314,101 |
| Materials and Supplies Inventory | 19,403 |
| Accounts Receivable | 1,897 |
| Intergovernmental Receivable | 678,148 |
| Taxes Receivable | 17,425,156 |
| Non-Depreciable Capital Assets | 6,772,704 |
| Depreciable Capital Assets, net | <u>14,742,032</u> |
| Total Assets | <u><u>54,953,441</u></u> |
| LIABILITIES: | |
| Accounts Payable | 313,407 |
| Accrued Wages and Benefits | 2,450,895 |
| Intergovernmental Payable | 713,540 |
| Unearned Revenue | 10,630,982 |
| Claims Payable | 548,908 |
| Long-Term Liabilities: | |
| Due Within One Year | 660,256 |
| Due in More Than One Year | <u>9,158,435</u> |
| Total Liabilities | <u><u>24,476,423</u></u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 12,945,571 |
| Restricted for Debt Service | 1,785,507 |
| Restricted for Capital Projects | 2,855,516 |
| Restricted for Other Purposes | 850,422 |
| Unrestricted | <u>12,040,002</u> |
| Total Net Assets | <u><u>\$ 30,477,018</u></u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Program Revenues | | Net(Expense) Revenue and Changes in Net Assets | |
|---|---|---|---|----------------------|
| Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 16,078,851 | \$ 1,125,338 | \$ 412,546 | \$ (14,540,967) |
| Special | 3,650,167 | - | 1,996,109 | (1,654,058) |
| Vocational | 369,897 | - | - | (369,897) |
| Support Services: | | | | |
| Pupils | 1,557,509 | 28,694 | 20,892 | (1,507,923) |
| Instructional Staff | 1,912,135 | - | 10,355 | (1,901,780) |
| Board of Education | 49,925 | - | - | (49,925) |
| Administration | 2,094,497 | - | 200 | (2,094,297) |
| Fiscal | 2,287,391 | - | 13,332 | (2,274,059) |
| Business | 179,018 | - | - | (179,018) |
| Operation and Maintenance of Plant | 4,121,014 | - | 27,000 | (4,094,014) |
| Pupil Transportation | 1,441,201 | - | - | (1,441,201) |
| Central | 25,156 | - | - | (25,156) |
| Operation of Non-Instructional Services | 1,412,979 | 560,539 | 757,250 | (95,190) |
| Extracurricular Activities | 649,075 | 109,752 | - | (539,323) |
| Interest and Fiscal Charges | 334,929 | - | - | (334,929) |
| Total Governmental Activities | \$ 36,163,744 | \$ 1,824,323 | \$ 3,237,684 | (31,101,737) |
| General Revenues: | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | 15,363,198 |
| Capital Outlay | | | | 1,039,087 |
| Debt Service | | | | 928,473 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 13,773,591 |
| Gifts and Donations | | | | 9,943 |
| Interest | | | | 694,138 |
| Sale of Land | | | | 137,500 |
| Miscellaneous | | | | 591,972 |
| Total General Revenues | | | | 32,537,902 |
| Special Item - Insurance Reimbursement | | | | 850,000 |
| Change in Net Assets | | | | 2,286,165 |
| Net Assets Beginning of Year | | | | 28,190,853 |
| Net Assets End of Year | | | | \$ 30,477,018 |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

| | <u>General Fund</u> | <u>All Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|
| ASSETS: | | | |
| Current Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 9,880,192 | \$ 4,251,271 | \$ 14,131,463 |
| Materials and Supplies Inventory | - | 19,403 | 19,403 |
| Accounts Receivable | 1,863 | 34 | 1,897 |
| Interfund Receivable | 15,899 | - | 15,899 |
| Intergovernmental Receivable | - | 678,148 | 678,148 |
| Taxes Receivable | 15,317,766 | 2,107,390 | 17,425,156 |
| Total Assets | <u>\$ 25,215,720</u> | <u>\$ 7,056,246</u> | <u>\$ 32,271,966</u> |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$ 228,329 | \$ 85,078 | \$ 313,407 |
| Accrued Wages and Benefits | 2,284,479 | 165,819 | 2,450,298 |
| Interfund Payable | - | 15,899 | 15,899 |
| Intergovernmental Payable | 667,214 | 45,307 | 712,521 |
| Deferred Revenue | 9,468,901 | 1,784,896 | 11,253,797 |
| Total Liabilities | <u>12,648,923</u> | <u>2,096,999</u> | <u>14,745,922</u> |
| EQUITY: | | | |
| FUND BALANCES: | | | |
| Reserved: | | | |
| Reserved for Encumbrances | 759,940 | 773,905 | 1,533,845 |
| Reserved for Advances | 15,899 | - | 15,899 |
| Reserved for Property Taxes | 5,848,865 | 716,254 | 6,565,119 |
| Unreserved, Reported in: | | | |
| General Fund | 5,942,093 | - | 5,942,093 |
| Special Revenue Funds | - | 362,346 | 362,346 |
| Debt Service Funds | - | 1,443,761 | 1,443,761 |
| Capital Projects Funds | - | 1,662,981 | 1,662,981 |
| Total Fund Balances | <u>12,566,797</u> | <u>4,959,247</u> | <u>17,526,044</u> |
| Total Liabilities and Fund Balances | <u>\$ 25,215,720</u> | <u>\$ 7,056,246</u> | <u>\$ 32,271,966</u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

| | | |
|--|------------------|-----------------------------|
| Total Governmental Fund Balances | | \$ 17,526,044 |
| <p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. | | 21,514,736 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds: | | |
| Taxes Receivable | | 622,815 |
| Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. | | 632,114 |
| Some liabilities are not due and payable in the current period and, therefore, not reported in the funds: | | |
| General Obligation Bonds and Loan Payable | \$ (8,242,319) | |
| Compensated Absences Payable | (1,249,526) | |
| Capital Leases Payable | <u>(326,846)</u> | |
| | | <u>(9,818,691)</u> |
| Net Assets of Governmental Activities | | <u><u>\$ 30,477,018</u></u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | <u>General Fund</u> | <u>All Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|
| REVENUES: | | | |
| Property and Other Local Taxes | \$ 15,694,787 | \$ 2,021,056 | \$ 17,715,843 |
| Intergovernmental | 13,646,991 | 2,970,524 | 16,617,515 |
| Interest | 484,905 | 170,681 | 655,586 |
| Tuition and Fees | 1,038,748 | 68,906 | 1,107,654 |
| Rent | 17,684 | - | 17,684 |
| Extracurricular Activities | - | 138,446 | 138,446 |
| Gifts and Donations | - | 9,943 | 9,943 |
| Customer Sales and Services | - | 560,539 | 560,539 |
| Reimbursements | - | 850,000 | 850,000 |
| Miscellaneous | 570,898 | 21,074 | 591,972 |
| Total Revenues | <u>31,454,013</u> | <u>6,811,169</u> | <u>38,265,182</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 15,232,106 | 499,020 | 15,731,126 |
| Special | 2,645,005 | 960,359 | 3,605,364 |
| Vocational | 302,007 | - | 302,007 |
| Support Services: | | | |
| Pupils | 1,185,039 | 367,862 | 1,552,901 |
| Instructional Staff | 1,308,406 | 531,735 | 1,840,141 |
| Board of Education | 49,925 | - | 49,925 |
| Administration | 1,971,717 | 83,144 | 2,054,861 |
| Fiscal | 2,182,222 | 54,963 | 2,237,185 |
| Business | 180,160 | 677 | 180,837 |
| Operation and Maintenance of Plant | 2,622,249 | 58,250 | 2,680,499 |
| Pupil Transportation | 1,072,860 | 263,179 | 1,336,039 |
| Central | 25,156 | - | 25,156 |
| Operation of Non-Instructional Services | - | 1,402,144 | 1,402,144 |
| Extracurricular Activities | 465,748 | 116,894 | 582,642 |
| Capital Outlay | - | 1,638,076 | 1,638,076 |
| Debt Service: | | | |
| Principal | 80,087 | 481,381 | 561,468 |
| Interest | 1,206 | 307,262 | 308,468 |
| Total Expenditures | <u>29,323,893</u> | <u>6,764,946</u> | <u>36,088,839</u> |
| Excess of Revenues Over Expenditures | <u>2,130,120</u> | <u>46,223</u> | <u>2,176,343</u> |
| OTHER FINANCING SOURCES AND (USES): | | | |
| Sale of Land | - | 137,500 | 137,500 |
| Transfers In | - | 86,885 | 86,885 |
| Transfers Out | (86,885) | - | (86,885) |
| Total Other Financing Sources and (Uses) | <u>(86,885)</u> | <u>224,385</u> | <u>137,500</u> |
| Net Change in Fund Balances | 2,043,235 | 270,608 | 2,313,843 |
| Fund Balance at Beginning of Year | 10,523,562 | 4,688,639 | 15,212,201 |
| Fund Balance at End of Year | <u>\$ 12,566,797</u> | <u>\$ 4,959,247</u> | <u>\$ 17,526,044</u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
RECONCILIATION OF STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Net Change in Fund Balances - Total Governmental Funds \$ 2,313,843

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

Governmental funds report capital outlay as expenditures. However, on 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 exceeds depreciation in the current year.

| | | |
|---|------------------|-----------|
| Capital Outlay - Depreciable Capital Assets | \$ 460,483 | |
| Depreciation | <u>(960,110)</u> | (499,627) |

The net effect of various miscellaneous transactions involving capital assets (I.e., sales, disposals, trade-ins and donations) is to decrease net assets. (101,040)

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

| | | |
|-------------------|------------------|-------|
| Intergovernmental | 393,760 | |
| Property Taxes | <u>(385,085)</u> | 8,675 |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 561,468

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest is accrued, regardless of when it is due. The additional interest is reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on capital appreciation bonds. (26,461)

Internal service fund is not included in governmental fund financial statements. (10,463)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

| | | |
|------------------------------|---------------|---------------|
| Compensated Absences Payable | <u>39,770</u> | |
| | | <u>39,770</u> |

Change in Net Assets of Governmental Activities \$ 2,286,165

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|---------------------|---------------------|---------------------------------------|
| REVENUES: | | | | |
| Property and Other Local Taxes | \$ 14,076,174 | \$ 10,076,174 | \$ 13,212,252 | \$ 3,136,078 |
| Intergovernmental | 12,048,215 | 9,048,215 | 13,646,991 | 4,598,776 |
| Interest | 363,841 | 263,841 | 484,905 | 221,064 |
| Tuition and Fees | 1,183,257 | 983,257 | 1,038,318 | 55,061 |
| Rent | 16,251 | 16,251 | 17,684 | 1,433 |
| Gifts and Donations | 716 | 716 | - | (716) |
| Miscellaneous | 755,059 | 477,408 | 569,042 | 91,634 |
| Total Revenues | <u>28,443,513</u> | <u>20,865,862</u> | <u>28,969,192</u> | <u>8,103,330</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,491,416 | 15,406,979 | 15,406,979 | - |
| Special | 2,984,542 | 2,832,194 | 2,832,194 | - |
| Vocational | 290,082 | 306,075 | 306,075 | - |
| Support Services: | | | | |
| Pupils | 1,202,641 | 1,189,025 | 1,189,025 | - |
| Instructional Staff | 1,561,390 | 1,471,495 | 1,471,411 | 84 |
| Board of Education | 63,859 | 54,443 | 54,443 | - |
| Administration | 2,176,117 | 2,097,956 | 2,097,956 | - |
| Fiscal | 2,643,894 | 2,773,763 | 2,205,361 | 568,402 |
| Business | 187,980 | 186,036 | 186,036 | - |
| Operation and Maintenance of Plant | 3,215,361 | 2,942,982 | 2,942,981 | 1 |
| Pupil Transportation | 1,259,439 | 1,208,151 | 1,207,951 | 200 |
| Central | 25,500 | 45,156 | 45,156 | - |
| Extracurricular Activities | 534,906 | 485,518 | 485,518 | - |
| Total Expenditures | <u>31,637,127</u> | <u>30,999,773</u> | <u>30,431,086</u> | <u>568,687</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(3,193,614)</u> | <u>(10,133,911)</u> | <u>(1,461,894)</u> | <u>8,672,017</u> |
| OTHER FINANCING SOURCES AND USES: | | | | |
| Proceeds from Sale of Capital Assets | 752 | 752 | 1,198 | 446 |
| Refund of Prior Year Expenditures | 1,449 | 1,449 | 105 | (1,344) |
| Advances In | - | - | 233,716 | 233,716 |
| Transfers Out | (59,045) | (86,885) | (86,885) | - |
| Accrued Interest Received on Debt Issuance | 10,974 | 10,974 | - | (10,974) |
| Total Other Financing Sources and Uses | <u>(45,870)</u> | <u>(73,710)</u> | <u>148,134</u> | <u>221,844</u> |
| Net Change in Fund Balances | (3,239,484) | (10,207,621) | (1,313,760) | 8,893,861 |
| Fund Balance (Deficit) at Beginning of Year | 9,216,534 | 9,216,534 | 9,216,534 | - |
| Prior Year Encumbrances Appropriated | 991,087 | 991,087 | 991,087 | - |
| Fund Balance (Deficit) at End of Year | <u>\$ 6,968,137</u> | <u>\$ -</u> | <u>\$ 8,893,861</u> | <u>\$ 8,893,861</u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006**

| | Governmental Activities Internal Service Fund |
|--|--|
| | |
| ASSETS: | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 1,182,638 |
| Total Assets | 1,182,638 |
| LIABILITIES: | |
| Current Liabilities: | |
| Accrued Wages and Benefits | 597 |
| Intergovernmental Payable | 1,019 |
| Claims Payable | 548,908 |
| Total Liabilities | 550,524 |
| NET ASSETS: | |
| Unrestricted | 632,114 |
| Total Net Assets | \$ 632,114 |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | <u>Governmental Activities Internal Service Fund</u> |
|---|---|
| OPERATING REVENUES: | |
| Charges for Services | \$ 3,052,939 |
| Total Operating Revenues | <u>3,052,939</u> |
| OPERATING EXPENSES: | |
| Purchased Services | 216,560 |
| Claims | 2,881,876 |
| Other | 3,518 |
| Total Operating Expenses | <u>3,101,954</u> |
| Operating Income (Loss) | (49,015) |
| NON-OPERATING REVENUES (EXPENSES): | |
| Interest | <u>38,552</u> |
| Total Non-Operating Revenues (Expenses) | <u>38,552</u> |
| Net Change in Net Assets | (10,463) |
| Net Assets at Beginning of Year | <u>642,577</u> |
| Net Assets at End of Year | <u><u>\$ 632,114</u></u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Governmental Activities Internal Service Fund |
|--|--|
| | |
| Cash Flows from Operating Activities: | |
| Cash Received from Charges for Services | \$ 3,052,939 |
| Cash Payments for Purchased Services | (215,297) |
| Cash Payments for Claim Payments | (2,862,627) |
| Cash Payments for Other | (3,518) |
| | (28,503) |
| | |
| Cash Flows from Investing Activities: | |
| Interest Received | 38,552 |
| | 10,049 |
| | |
| Net Increase (Decrease) in Cash and Cash Equivalents | 10,049 |
| | |
| Cash and Cash Equivalents at Beginning of Year | 1,172,589 |
| Cash and Cash Equivalents at End of Year | \$ 1,182,638 |
| | |
| Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities: | |
| Operating Income (Loss) | \$ (49,015) |
| | |
| Increase (Decrease) in Liabilities: | |
| Accrued Wages and Benefits | 597 |
| Intergovernmental Payable | 666 |
| Claims Payable | 19,249 |
| | (28,503) |
| Net Cash Used by Operating Activities | \$ (28,503) |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006**

| | <u>Private Purpose Trust</u> | <u>Agency Fund</u> |
|--|----------------------------------|--------------------|
| ASSETS: | | |
| Current Assets: | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,756 | \$ 47,721 |
| Total Assets | <u>2,756</u> | <u>47,721</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Undistributed Monies | - | 47,721 |
| Total Liabilities | <u>-</u> | <u>47,721</u> |
| NET ASSETS: | | |
| Held in Trust for Scholarships | 2,756 | - |
| Total Net Assets | <u>\$ 2,756</u> | <u>\$ -</u> |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| | Private Purpose Trust |
|--|----------------------------------|
| ADDITIONS: | |
| Interest | \$ 115 |
| Total Additions | 115 |
| DEDUCTIONS: | |
| Payments in Accordance with Trust Agreements | 150 |
| Total Deductions | 150 |
| Change in Net Assets | (35) |
| Net Assets Beginning of Year | 2,791 |
| Net Assets End of Year | \$ 2,756 |

See Accompanying Notes to Basic Financial Statements

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Mount Vernon City School District (the District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in the 1870s through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships. The District is the 96th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 175 non-certificated employees and 320 certificated full-time teaching personnel who provide services to 4,217 students and other community members. The District currently operates 9 instructional buildings, one administrative building, and one garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District does not have any component units.

The following activities are included within the reporting entity:

Parochial Schools - Within the District boundaries, St. Vincent De Paul Elementary operated through the Columbus Catholic Diocese; Christian Star Academy Elementary is operated as a private school; Mount Vernon Academy High School and Mount Vernon Seventh-Day Adventist Elementary School are operated through the Seventh-Day Adventist Church. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity of these State monies by the District is reflected in a special revenue fund for financial reporting purposes.

The District is associated with three jointly governed organizations, and an insurance purchasing pool. These organizations include the Tri-Rivers Educational Computer Association, Licking Area Computer Association, Knox County Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

Governmental Funds

Governmental funds focus 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 General Fund is the District's only major governmental fund which is described as follows:

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 is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the District account for grants and other resources, debt service, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust, which accounts for a program that provides assistance to needy students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or 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 income and property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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 on the operating statement as an expense with a like amount reported as donated commodities 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2006, investments were limited to STAR Ohio. Investment earnings are allocated as authorized by State statute based upon District policy. Total investment earnings during fiscal year 2006 totaled \$694,253, with \$484,905 credited to the General Fund.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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, 2006.

F. Inventory

On the 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 consumption method on the government-wide and fund financial statements.

G. Capital Assets

General capital assets are those assets not specifically related to 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is one thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------------------|----------------------------|
| Land Improvements | 15 - 30 years |
| Buildings and Building Improvements | 15 - 30 years |
| Furniture and Fixtures | 5 - 20 years |
| Vehicles | 5 - 15 years |
| Equipment | 10 years |

H. Interfund Balances

On the 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 columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

I. Compensated Absences

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

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured severance absences payable" in the funds from which these payments will be made.

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those, the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees, except certified employees, after 20 years of current service with the District, or after 15 years of service and at least 45 years of age, or after 10 years of service and at least 50 years of age. The District records a liability for certified employees after 15 years of current service and at least 40 years of age.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

J. 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, and are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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 property taxes, advances, and encumbrances.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles in the United States of America but not available for appropriation under State statute.

M. Interfund Transactions

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

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

N. Estimates

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. No such transaction occurred during fiscal year 2006. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. The District recognized as special item from an insurance reimbursement received in the amount of \$850,000 during the fiscal year. No other special items recognized by the District.

3. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

| Net Change in Fund Balance General Fund | |
|---|----------------|
| | General |
| GAAP Basis | \$2,043,235 |
| Increase (Decrease) Due To: | |
| Revenue Accruals: | |
| Accrued FY 2005, Received In Cash FY 2006 | 3,367,210 |
| Accrued FY 2006, Not Yet Received in Cash | (5,349,644) |
| Expenditure Accruals: | |
| Accrued FY 2005, Paid in Cash FY 2006 | (3,300,888) |
| Accrued FY 2006, Not Yet Paid in Cash | 2,678,938 |
| Advances In | 233,716 |
| Encumbrances Outstanding at Year End (Budget Basis) | (986,327) |
| Budget Basis | (\$1,313,760) |

4. DEPOSITS AND INVESTMENTS

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

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

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
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(CONTINUED)**

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end of the fiscal year, the District had a bank balance of \$599,939 and a carrying amount of \$451,395. Of that balance, \$200,000 was covered by Federal Deposit Insurance and \$399,939 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

Investments

As of June 30, 2006, the District had \$14,913,183 invested in STAR Ohio.

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk - STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The District has no investment policy that would further limit its investment choices.

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

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

Reconciliation of Cash and Investments to the Statement of Net Assets

| | |
|---|----------------------------|
| Investment – STAR Ohio | \$14,913,183 |
| Carrying amounts of deposits | 451,395 |
| Fiduciary Fund Cash and Cash Equivalents | <u>(50,477)</u> |
| Total Governmental Activities Equity in Pooled Cash | <u><u>\$15,314,101</u></u> |

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true 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.

Tangible personal property taxes paid 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.

The District receives property taxes from Knox 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, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$5,848,865 in the General Fund and \$716,254 in the Other Governmental Funds.

The assessed values upon which fiscal year 2006 taxes were collected are:

| | 2005 Second- Half Collections | | 2006 First- Half Collections | |
|--|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$413,556,980 | 80% | \$462,314,530 | 83% |
| Public Utility | 20,932,180 | 4% | 21,061,790 | 4% |
| Tangible Personal Property | 81,297,726 | 16% | 73,822,811 | 13% |
| Total Assessed Value | <u>\$515,786,886</u> | <u>100%</u> | <u>\$557,199,131</u> | <u>100.0</u> |
| Tax rate per \$1,000 of assessed valuation | \$35.29 | | \$34.29 | |

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

6. RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, accounts (rent and student fees), intergovernmental, and loans. 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 intergovernmental receivables follows:

| | Amount |
|-------------------------------|---------------|
| Governmental Activities | |
| Food Service | \$123,120 |
| Title VI-B | 384,481 |
| Title I | 117,704 |
| Title V | 1,101 |
| Title II-A | 49,765 |
| Miscellaneous Federal | 1,977 |
| Total Governmental Activities | \$678,148 |

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | Balance at 6/30/05 | Additions | Reductions | Balance at 6/30/06 |
|---|-------------------------------|------------------|-------------------|-------------------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$ 325,664 | \$ - | (\$ 95,000) | \$ 230,664 |
| Construction in Progress | 6,542,040 | - | - | 6,542,040 |
| Total Nondepreciable Capital Assets | 6,867,704 | - | (95,000) | 6,772,704 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 348,907 | - | - | 348,907 |
| Buildings and Building Improvements | 20,634,119 | - | (1,995) | 20,632,124 |
| Furniture, Fixtures, and Equipment | 6,598,727 | 460,483 | (221,914) | 6,837,296 |
| Vehicles | 1,177,300 | - | - | 1,177,300 |
| Total Depreciable Capital Assets | 28,759,053 | 460,483 | (223,909) | 28,995,627 |
| Total Capital Assets | 35,626,757 | 460,483 | (318,909) | 35,768,331 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (315,345) | (2,925) | - | (318,270) |
| Buildings and Building Improvements | (7,492,567) | (402,496) | 1,995 | (7,893,068) |
| Furniture, Fixtures, and Equipment | (4,780,615) | (490,137) | 215,874 | (5,054,878) |
| Vehicles | (922,827) | (64,552) | - | (987,379) |
| Total Accumulated Depreciation | (13,511,354) | (960,110) | 217,869 | (14,253,595) |
| Depreciable Capital Assets, Net | 15,247,699 | (499,627) | (6,040) | 14,742,032 |
| Governmental Activities Capital Assets, Net | \$22,115,403 | (\$499,627) | (\$101,040) | \$21,514,736 |

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|-----------|
| Instruction: | |
| Regular | \$368,166 |
| Special | 55,317 |
| Vocational | 58,520 |
| Support Services: | |
| Instructional Staff | 65,911 |
| Administration | 59,501 |
| Fiscal | 53,938 |
| Operation and Maintenance of Plant | 90,961 |
| Pupil Transportation | 92,204 |
| Operations of Non-Instruction | 14,093 |
| Extracurricular | 65,330 |
| Capital Outlay | 36,169 |
| Total Depreciation Expense | \$960,110 |

8. INTERFUND ASSETS/LIABILITIES

A. Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

| Receivable Fund | Payable Fund | Amount |
|------------------------|----------------------------|---------------|
| General Fund | Nonmajor Governmental Fund | \$15,899 |

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, 2006 are reported on the statement of net assets.

B. Interfund transfers for the fiscal year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

| | |
|--|----------|
| Transfers to Nonmajor Governmental Funds | |
| from: General Fund | \$86,885 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that the 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District's insurance coverage was as follows:

| <u>Type of Coverage</u> | <u>Deductible</u> | <u>Liability Limit</u> |
|--|-------------------|----------------------------|
| Building and Contents-replacement cost | \$1,000 | \$76,170,234 |
| Inland Marine Coverage | 500 | 942,750 |
| Automobile Liability | | 1,000,000 |
| General Liability | | |
| Per occurrence | | 1,000,000 |
| Per year | | 2,000,000 |

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

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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 percentage 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 insures 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.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of \$548,908 reported in the Internal Service Fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

| | <u>Balance at Beginning of Year</u> | <u>Current Year Claims</u> | <u>Claim Payments</u> | <u>Balance at End of Year</u> |
|------|---|--------------------------------|---------------------------|-----------------------------------|
| 2005 | \$474,485 | \$2,860,192 | \$2,805,018 | \$529,659 |
| 2006 | \$529,659 | \$2,881,876 | \$2,862,627 | \$548,908 |

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

10. 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 public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$560,702, \$529,918, and \$489,641, respectively; which were equal to the required contributions for each year.

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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. 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

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(CONTINUED)**

members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$2,324,942, \$2,230,744, and \$2,118,414, respectively; 82 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$402,932.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, and June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. 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 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005, were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants eligible to receive benefits is 58,123.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .245, then adding the surcharge due as of June 30, 2005, as certified to your district by SERS.

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for certificated and classified personnel and 260 days for school administrators and other administrators. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified and 40 days certificated employees, 50 days for school administrators and 50 days for other administrators.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company.

13. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2006 were as follows:

| | Balance at 07/01/05 | Additions | Deductions | Balance at 06/30/06 | Amount Due in One Year |
|-----------------------------|------------------------------------|--------------------|----------------------|------------------------------------|---------------------------------------|
| General Obligation Bonds | \$8,315,000 | \$ - | (\$415,000) | \$7,900,000 | \$395,000 |
| G.O. Bonds Accretion | 9,292 | 26,461 | - | 35,753 | - |
| Energy Conservation Loan | 372,947 | - | (66,381) | 306,566 | 70,253 |
| Long-Term Bonds & Loan | 8,697,239 | 26,461 | (481,381) | 8,242,319 | 465,253 |
| Capital Leases | 406,933 | - | (80,087) | 326,846 | 85,664 |
| Compensated Absences | 1,289,296 | 1,249,526 | (1,289,296) | 1,249,526 | 109,339 |
| Total Long-Term Obligations | <u>\$10,393,468</u> | <u>\$1,275,987</u> | <u>(\$1,850,764)</u> | <u>\$9,818,691</u> | <u>\$660,256</u> |

General Obligation Bonds - In February 2005, the District issued general obligation bonds for refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The bonds were issued for a fourteen-year period with final maturity at December 2019, with an interest rate of 2.5% to 9.7%. The bonds will be retired from the Bond Retirement Debt Service Fund.

Energy Conservation Loan - In June 2002, the District issued general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2010, with an interest rate of 5.75%. The loan will be retired from the Bond Retirement Debt Service Fund.

Capital leases will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

Principal and interest requirements, including accretion, to retire general obligation debt and loan, including notes outstanding at June 30, 2006, are as follows:

| Fiscal year Ending June 30, | Principal | Interest | Total |
|--|--------------------|--------------------|---------------------|
| 2007 | \$465,253 | \$293,264 | \$758,517 |
| 2008 | 479,350 | 279,167 | 758,517 |
| 2009 | 498,687 | 264,518 | 763,205 |
| 2010 | 553,276 | 248,216 | 801,492 |
| 2011 | 485,000 | 228,445 | 713,445 |
| 2012-2016 | 2,630,753 | 1,219,402 | 3,850,155 |
| 2017-2021 | 3,130,000 | 308,638 | 3,438,638 |
| Total | <u>\$8,242,319</u> | <u>\$2,841,650</u> | <u>\$11,083,969</u> |

Accretion

Capital accretion bonds were issued with the General Obligation Bonds – 2005. These bonds were purchased at a discount at the time of issuance. At maturity, all compound interest is paid to the bondholder. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The fiscal year 2006 amount of accretion is \$26,461.

14. CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment have been capitalized in the amount of \$455,000. This amount represents the present value of the minimum lease payments at the time of acquisition and a corresponding liability was recorded. Principal payments in fiscal year 2006 totaled \$80,087 in the general fund

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

| Fiscal Year Ending June 30, | Amount |
|---|------------------|
| 2007 | \$105,108 |
| 2008 | 105,108 |
| 2009 | 105,108 |
| 2010 | 52,554 |
| Total | <u>367,878</u> |
| Less: Amount Representing Interest | (41,032) |
| Present Value of Net Minimum Lease Payments | <u>\$326,846</u> |

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> |
|--|-------------------|--------------------------------|
| Set-aside Cash Balance as of June 30, 2005 | (\$244,631) | (\$629,200) |
| Current Year Set-aside Requirement | 566,540 | 566,540 |
| Qualifying Off-Sets | - | (925,460) |
| Qualifying Disbursements | (378,916) | (64,325) |
| Total | <u>(\$57,007)</u> | <u>(\$1,052,445)</u> |
| Cash Balance Carried Forward to FY 2007 | <u>(\$57,007)</u> | <u>(\$629,200)</u> |

The District had qualifying disbursements plus prior set-aside cash balances during the fiscal year that reduced the set-aside amounts below zero for the textbook reserve and this amount may be used to reduce the set-aside requirements for future fiscal years. The negative amount is therefore presented as being carried forward to the next fiscal year. During fiscal year 2000, the District issued \$629,200 in energy conservation notes for various capital related improvements for District facilities. These proceeds may be used to reduce the capital acquisition reserve for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

16. JOINTLY GOVERNED ORGANIZATIONS

Tri-Rivers Educational Computer Association - The Tri-Rivers Educational Computer Association (TRECA) is a non-for-profit computer service bureau owned and operated by public school districts in the Ohio counties of Delaware, Marion, Morrow, Wyandot, Knox and Muskingum. The primary function of TRECA is to provide data processing services to the member districts in administrative areas with the major emphasis being placed upon accounting, inventory control and payroll services. Other areas of service provided by TRECA include career guidance services, handicapped student tracking, professional development and technical services, and limited cooperative purchasing. Tri-Rivers Joint Vocational School District is one of TRECA's member districts and acts as the fiscal agent for TRECA.

The District paid TRECA \$130,357 for services in fiscal year 2006. Financial information can be obtained from Mike Carder, who serves as Director, at 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

Licking Area Computer Association - The Licking Area Computer Association (LACA) is one of 23 Information Technology Centers in the state of Ohio that make up the Ohio Education Computer Network (OECN). LACA was founded in 1982, and is a non-profit organization, owned and governed by the schools it serves. LACA provides a variety of computer services to its member K-12 districts, including accounting, payroll, student grading, student scheduling, electronic grade books, professional development, Internet, Local Area Network support, library automation, and EMIS reporting to the Ohio Department of Education.

The District paid LACA \$2,610 for services in fiscal year 2006. Financial information can be obtained from Sandy Mercer, who serves as Executive Director, at 195 Union Street, Suite C-2, Newark, Ohio 43055.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

Knox County Career Center - The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Knox County Career Center, Tracey Elliot, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

17. INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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 percentage 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 insures 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.

18. 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.

19. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006
(CONTINUED)**

B. Litigation

The District is currently party to litigation at June 30, 2006. It is the opinion of management that the ultimate disposition of these claims and legal proceedings will not have a material, if any, effect on the financial condition of the District.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

| Federal Grantor: Pass thru Grantor Program Title | Pass-Through Entity Number | Federal CFDA Number | Cash Receipts | Non-Cash Receipts | Cash Disbursements | Non-Cash Disbursements |
|--|----------------------------------|---------------------------|---------------------|----------------------|-----------------------|---------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| <i>Child Nutrition Cluster:</i> | | | | | | |
| Food Donation | N/A | 10.550 | \$ - | \$ 62,246 | \$ - | \$ 62,246 |
| School Breakfast Program | 05-PU-05,06 | 10.553 | 75,105 | - | 75,105 | - |
| National School Lunch Program | LL-P4,P1-05,06 | 10.555 | 319,185 | - | 319,185 | - |
| Special Milk Program for Childre | 02-PU-05,06 | 10.556 | 4,545 | - | 4,545 | - |
| Summer Food Service | 23,24-PU-05 | 10.559 | 24,241 | - | 24,241 | - |
| <i>Total Child Nutrition Cluster:</i> | | | <u>423,076</u> | <u>62,246</u> | <u>423,076</u> | <u>62,246</u> |
| Total U.S. Department of Agriculture | | | <u>423,076</u> | <u>62,246</u> | <u>423,076</u> | <u>62,246</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| <i>Special Education Cluster</i> | | | | | | |
| Special Education-Grants to State | 6B-SF-05,06 | 84.027 | 1,073,505 | - | 1,067,880 | - |
| Special Education-Preschool Grant | PG-S1-05,06 | 84.173 | 38,612 | - | 37,836 | - |
| <i>Total Special Education Cluster</i> | | | <u>1,112,117</u> | <u>-</u> | <u>1,105,716</u> | <u>-</u> |
| Title I Grants to Local Educational Agencie | C1-S1-05,06 | 84.010 | 684,000 | - | 778,225 | - |
| Safe and Drug Free Schools and Communities-State Gran | DR-S1-05,06 | 84.186 | 24,312 | - | 23,247 | - |
| State Grants for Innovative Program | C2-S1-05,06 | 84.298 | 12,707 | - | 11,342 | - |
| Education Technology State Grant | TJ-S1-05,06 | 84.318 | 13,876 | - | 13,336 | - |
| Comprehensive School Reform Demonstratio | RF-S1-05,06 | 84.332 | 73,428 | - | 86,802 | - |
| Improving Teacher Quality State Grant | TR-S1-05,06 | 84.367 | 222,582 | - | 233,414 | - |
| Total U.S. Department of Education | | | <u>2,143,022</u> | <u>-</u> | <u>2,252,082</u> | <u>-</u> |
| <u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u> | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Learn & Serve America - School and Community Based Progran | SV-S1-05,06 | 94.004 | 13,023 | - | 17,726 | - |
| Total Corporation for National and Community Service | | | <u>13,023</u> | <u>-</u> | <u>17,726</u> | <u>-</u> |
| TOTAL FEDERAL ASSISTANCE | | | <u>\$ 2,579,121</u> | <u>\$ 62,246</u> | <u>\$ 2,692,884</u> | <u>\$ 62,246</u> |

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the accompanying Schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture.



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
Mount Vernon City School District
300 Newark Road
Mount Vernon, Ohio 43050

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District) as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 18, 2006. 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 the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Mount Vernon City School District
Knox County
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*
Page 2

This report is intended solely for the information and use of management, Board of Education, the Auditor of State, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Sherman & Jones, Inc.

Newark, Ohio
December 18, 2006



**Report on Compliance with Requirements Applicable to Its Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Education
Mount Vernon City School District
300 Newark Road
Mount Vernon, Ohio 43050

Compliance

We have audited the compliance of the Mount Vernon City School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2006. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Board of Education, the Auditor of State, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Sherman & Snow, Inc.

Newark, Ohio
December 18, 2006

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

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

JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for its major federal program? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for its major federal program? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Program (list): | Title I Grants to Local Educational Agencies \ 84.010 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

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

JUNE 30, 2006

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX 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
MARCH 13, 2007**