

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

*BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005*

PATRICIA A. SHEFFIELD, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Mechanicsburg Exempted Village School District, Champaign County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 13, 2006

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

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Julian & Grube, Inc. *Serving Ohio Local Governments*

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District (the "District"), Champaign County, as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mechanicsburg Exempted Village School District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mechanicsburg Exempted Village School District, Champaign County, as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2005 on our consideration of the Mechanicsburg Exempted Village School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis on pages 3 to 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.
December 19, 2005

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

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

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$900,577 which represents a 4.94% decrease from 2004.
- General revenues accounted for \$7,208,009 in revenue or 89.28% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$865,295 or 10.72% of total revenues of \$8,073,304.
- The District had \$8,973,881 in expenses related to governmental activities; \$865,295 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,208,009 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, building fund and classroom facilities fund. The general fund had \$6,093,860 in revenues and \$6,189,290 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$95,430 from \$565,988 to \$470,558.
- The District's bond retirement fund had \$599,047 in revenues and other financing sources and \$576,533 in expenditures. During fiscal year 2005, the bond retirement fund's fund balance increased \$22,514 from \$239,111 to \$261,625.
- The District's building fund had \$59,013 in revenues and \$1,084,453 in expenditures. During fiscal year 2005, the building fund's fund balance decreased to \$1,025,440 from 2,973,102 to 1,947,662.
- The District's classroom facilities fund had \$5,627,884 in revenues and \$2,474,254 in expenditures. During fiscal year 2005, the classroom facilities fund balance increased to \$3,153,630 from 5,934,976 to 9,088,606.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, bond retirement fund, building fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, building fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-49 of this report.

The District as a Whole

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

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

| | Net Assets | |
|--|------------------------------------|------------------------------------|
| | Governmental Activities 2005 | Governmental Activities 2004 |
| <u>Assets</u> | | |
| Current and other assets | \$ 26,323,373 | \$ 28,015,505 |
| Capital assets | <u>3,529,027</u> | <u>1,379,214</u> |
| Total assets | <u>29,852,400</u> | <u>29,394,719</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 4,150,629 | 2,621,660 |
| Long-term liabilities | <u>8,380,443</u> | <u>8,551,154</u> |
| Total liabilities | <u>12,531,072</u> | <u>11,172,814</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 945,898 | 766,405 |
| Restricted | 4,367,367 | 17,220,973 |
| Unrestricted | <u>12,008,063</u> | <u>234,527</u> |
| Total net assets | <u>\$ 17,321,328</u> | <u>\$ 18,221,905</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$17,321,328.

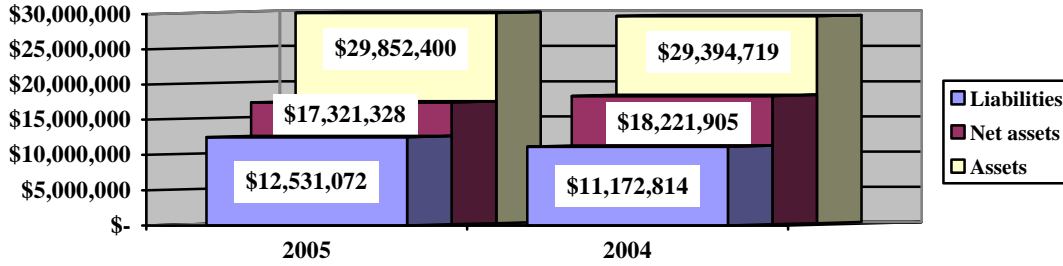
At year-end, capital assets represented 11.82% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$945,898. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$4,367,367, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$12,008,063 may be used to meet the District's ongoing obligations to the students and creditors.

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

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

Governmental Activities



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

Change in Net Assets

| | Governmental Activities 2005 | Governmental Activities 2004 |
|--|------------------------------------|------------------------------------|
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 341,085 | \$ 481,537 |
| Operating grants and contributions | 504,529 | 494,617 |
| Capital grants and contributions | 19,681 | 40,003 |
| General revenues: | | |
| Taxes | 2,831,299 | 2,172,948 |
| Grants and entitlements | 4,028,591 | 3,850,870 |
| Grants and entitlements restricted to Ohio School Facilities Construction | - | 16,467,473 |
| Investment earnings | 247,301 | 115,588 |
| Decrease in FMV of investments | (77,984) | (136,687) |
| Other | 178,802 | 24,577 |
| Total revenues | 8,073,304 | 23,510,926 |

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

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

Change in Net Assets

| | <u>Governmental Activities 2005</u> | <u>Governmental Activities 2004</u> |
|--|---|---|
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 3,476,049 | \$ 2,721,592 |
| Special | 1,059,199 | 822,265 |
| Vocational | 208,264 | 173,455 |
| Other | - | 23,882 |
| Support services: | | |
| Pupil | 425,540 | 373,457 |
| Instructional staff | 376,502 | 277,290 |
| Board of education | 37,112 | 38,614 |
| Administration | 691,200 | 618,389 |
| Fiscal | 323,285 | 248,922 |
| Operations and maintenance | 588,916 | 558,965 |
| Pupil transportation | 640,196 | 473,358 |
| Central | 146,581 | 82,822 |
| Food service operations | 241,387 | 268,771 |
| Operations of non-instructional services | 500 | 500 |
| Extracurricular activities | 320,672 | 298,243 |
| Interest and fiscal charges | <u>438,478</u> | <u>130,442</u> |
| Total expenses | <u>8,973,881</u> | <u>7,110,967</u> |
| Change in net assets | (900,577) | 16,399,959 |
| Net assets at beginning of year | <u>18,221,905</u> | <u>1,821,946</u> |
| Net assets at end of year | <u>\$ 17,321,328</u> | <u>\$ 18,221,905</u> |

Governmental Activities

Net assets of the District's governmental activities decreased \$900,577. Total governmental expenses of \$8,973,881 were offset by program revenues of \$865,295 and general revenues of \$7,208,009. Program revenues supported 9.64% of the total governmental expenses.

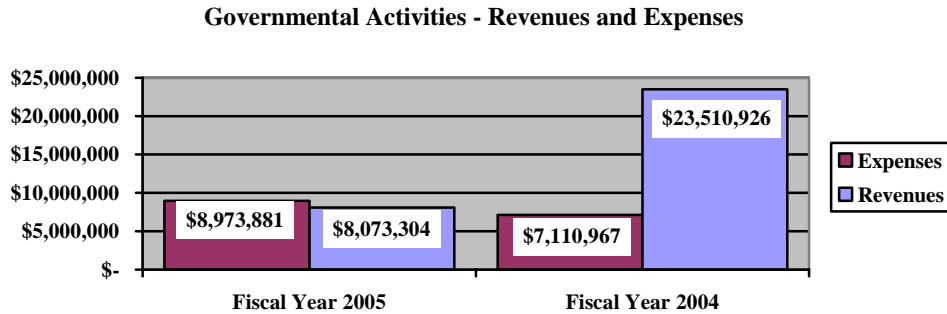
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.97% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,743,512 or 52.86% of total governmental expenses for fiscal 2005.

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

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

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



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

Governmental Activities

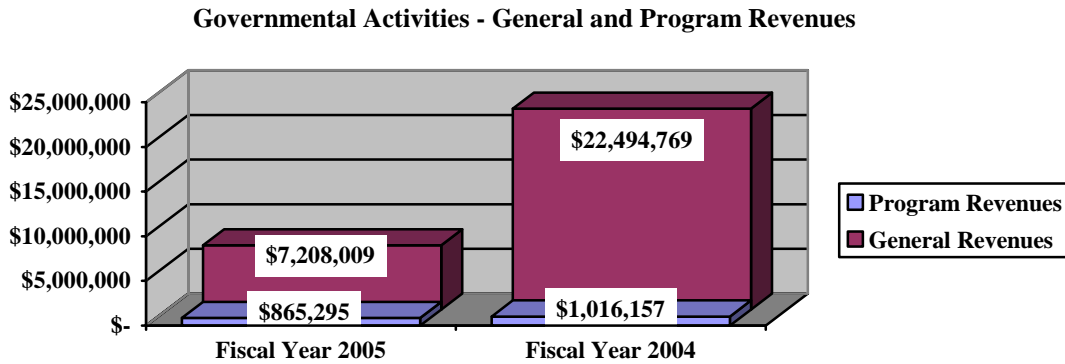
| | Total Cost of Services <u>2005</u> | Net Cost of Services <u>2005</u> | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> |
|--|--|--|--|--|
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 3,476,049 | \$ 3,366,741 | \$ 2,721,592 | \$ 2,471,598 |
| Special | 1,059,199 | 765,706 | 822,265 | 566,874 |
| Vocational | 208,264 | 208,264 | 173,455 | 173,455 |
| Other | - | - | 23,882 | 1,625 |
| Support services: | | | | |
| Pupil | 425,540 | 377,617 | 373,457 | 329,692 |
| Instructional staff | 376,502 | 351,728 | 277,290 | 235,194 |
| Board of education | 37,112 | 37,112 | 38,614 | 38,614 |
| Administration | 691,200 | 687,230 | 618,389 | 611,904 |
| Fiscal | 323,285 | 318,302 | 248,922 | 245,806 |
| Operations and maintenance | 588,916 | 570,969 | 558,965 | 541,393 |
| Pupil transportation | 640,196 | 640,196 | 473,358 | 473,358 |
| Central | 146,581 | 146,581 | 82,822 | 82,822 |
| Food service operations | 241,387 | (6,344) | 268,771 | 2,997 |
| Operations of non-instructional services | 500 | 500 | 500 | 500 |
| Extracurricular activities | 320,672 | 205,506 | 298,243 | 188,536 |
| Interest and fiscal charges | 438,478 | 438,478 | 130,442 | 130,442 |
| Total expenses | <u>\$ 8,973,881</u> | <u>\$ 8,108,586</u> | <u>\$ 7,110,967</u> | <u>\$ 6,094,810</u> |

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

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

The dependence upon tax and other general revenues for governmental activities is apparent, 91.5% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.36%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,400,582, which is higher than last year's total of \$10,097,711. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

| | Fund Balance June 30, 2005 | Restated Fund Balance June 30, 2004 | Increase (Decrease) | Percentage Change |
|----------------------|-------------------------------|---|------------------------|----------------------|
| General | \$ 470,558 | \$ 565,988 | \$ (95,430) | (16.86) % |
| Bond Retirement | 261,625 | 239,111 | 22,514 | 9.42 % |
| Building | 1,947,662 | 2,973,102 | (1,025,440) | (34.49) % |
| Classroom Facilities | 9,088,606 | 5,934,976 | 3,153,630 | 53.14 % |
| Other Governmental | <u>632,131</u> | <u>384,534</u> | <u>247,597</u> | 64.39 % |
| Total | <u>\$12,400,582</u> | <u>\$10,097,711</u> | <u>\$ 2,302,871</u> | 22.81 % |

General Fund

The District's general fund balance decreased \$95,430 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2005 by \$25,263. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

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

| | <u>2005</u> Amount | <u>2004</u> Amount | Increase (Decrease) | Percentage Change |
|----------------------------|-----------------------|-----------------------|------------------------|----------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 2,064,130 | \$ 1,716,718 | \$ 347,412 | 20.24 % |
| Tuition | 11,861 | 35,236 | (23,375) | (66.34) % |
| Earnings on investments | 22,399 | 18,750 | 3,649 | 19.46 % |
| Intergovernmental | 3,977,759 | 3,826,461 | 151,298 | 3.95 % |
| Other revenues | <u>17,711</u> | <u>15,589</u> | <u>2,122</u> | 13.61 % |
| Total | <u>\$ 6,093,860</u> | <u>\$ 5,612,754</u> | <u>\$ 481,106</u> | 8.57 % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 3,349,415 | \$ 3,254,450 | \$ 94,965 | 2.92 % |
| Support services | 2,503,067 | 2,440,122 | 62,945 | 2.58 % |
| Extracurricular activities | 243,493 | 224,384 | 19,109 | 8.52 % |
| Capital outlay | - | 95,667 | (95,667) | (100.00) % |
| Debt service | <u>23,148</u> | <u>26,723</u> | <u>(3,575)</u> | (13.38) % |
| Total | <u>\$ 6,119,123</u> | <u>\$ 6,041,346</u> | <u>\$ 77,777</u> | 1.29 % |

Bond Retirement Fund

The District's bond retirement fund had \$599,047 in revenues and other financing sources and \$576,533 in expenditures. During fiscal year 2005, the bond retirement fund's fund balance increased \$22,514 from \$239,111 to \$261,625.

Building Fund

The District's building fund had \$59,013 in revenues and \$1,084,453 in expenditures. During fiscal year 2005, the building fund's fund balance decreased \$1,025,440 from \$2,973,102 to \$1,947,662.

Classroom Facilities Fund

The District's classroom facilities fund had \$5,627,884 in revenues and \$2,474,254 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$3,153,630 from \$5,934,976 to \$9,088,606.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,046,702 and final budgeted revenues and other financing sources were \$6,046,702. Actual revenues and other financing sources for fiscal 2005 was \$5,918,509. This represents a \$128,193 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,521,063 were decreased to \$6,397,721 in the final appropriations. The actual budget basis expenditures for fiscal year 2005 totaled \$6,305,933 which was \$91,788 less than the final budget appropriations.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,529,027 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2005 | 2004 |
| Land | \$ 292,500 | \$ 42,500 |
| Land improvements | 17,876 | 20,080 |
| Buildings and improvements | 187,230 | 198,771 |
| Furniture and equipment | 640,775 | 651,118 |
| Vehicles | 220,341 | 249,188 |
| Construction in progress | 2,170,305 | 217,557 |
| Total | \$ 3,529,027 | \$ 1,379,214 |

The overall increase in capital assets of \$2,149,813 is due to capital outlays of \$2,288,788 exceeding depreciation expense of \$114,761 and disposals of \$24,214 (net of accumulated depreciation) in the fiscal year.

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

Debt Administration

At June 30, 2005, the District had \$7,821,377 in general obligation bonds and \$81,336 in notes outstanding. Of this total, \$175,783 is due within one year and \$7,717,390 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

| | Governmental Activities | Governmental Activities |
|---------------------------|----------------------------|----------------------------|
| | 2005 | 2004 |
| General obligation bonds | \$ 7,821,377 | \$ 7,920,065 |
| General obligation notes | 81,336 | 146,835 |
| Energy conservation notes | - | 3,471 |
| Total | \$ 7,902,713 | \$ 8,070,371 |

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

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

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

Current Financial Related Activities

Overall, the District is financially stable. As the preceding information shows, the District relies heavily upon property taxes, income taxes, and State support. A decrease in property tax revenues is anticipated in fiscal year 2006, due to changes enacted in the State's biennial budget bill effective July 1, 2005. Small growth in student population due to new housing will increase state support. This additional tax revenue along with the District's cash balance will be providing the District with the necessary funds to meet its operating expenses in fiscal year 2006. However, the future financial stability of the District is not without challenges.

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

With the defeat of an August Special Election and November General Election for an additional 1% income tax the District is currently working on a list of reductions that will reduce operating expenditures to match revenues. These cuts will result in the loss of programs and staff as well as revenue enhancements to the District that could include pay-to-participate for all sports and extracurriculars.

Another challenge facing the District is the construction project undertaken through the Ohio School Facilities Commission (OSFC). Approximately \$24.2 million in one new PreK-12 school began actual construction in spring 2005 under the OSFC project. All construction projects are expected to be completed in fiscal year 2007.

Since the District relies on the State for approximately 63% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The District has not anticipated a significant growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With approximately thirty-five percent of taxes paid to the District coming from business or industry, this could have a significant impact on the District's residential taxpayers.

Changes in state support with the enactment of the current state budget includes a reduction in the Cost of Doing Business Factor each year for the next three years and eliminated in year four. Also, the tax on general business and railroad property will be eliminated by 2009 and the tax on telephone and telecommunications property will be eliminated by 2011. Although the budget bill replaces the revenue lost due to phasing out the tax fully in the first five years, in the following seven years, the reimbursements are phased out.

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

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

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

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 7,725,574 |
| Investments | 6,316,405 |
| Receivables: | |
| Taxes | 2,508,966 |
| Accounts | 7,042 |
| Intergovernmental | 9,564,423 |
| Accrued interest | 34,944 |
| Prepayments | 33,503 |
| Materials and supplies inventory | 1,175 |
| Unamortized bond issuance costs | 131,341 |
| Capital assets: | |
| Land | 292,500 |
| Construction in progress | 2,170,305 |
| Depreciable capital assets, net | 1,066,222 |
| Capital assets, net. | 3,529,027 |
| Total assets. | 29,852,400 |
| Liabilities: | |
| Accounts payable. | 19,804 |
| Contracts payable. | 1,605,960 |
| Accrued wages and benefits | 491,333 |
| Pension obligation payable. | 141,195 |
| Intergovernmental payable | 25,329 |
| Deferred revenue | 1,782,540 |
| Accrued interest payable | 84,468 |
| Long-term liabilities: | |
| Due within one year. | 221,661 |
| Due in more than one year | 8,158,782 |
| Total liabilities | 12,531,072 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 945,898 |
| Restricted for: | |
| Capital projects | 3,802,350 |
| Debt service. | 354,438 |
| Classroom facilities maintenance. | 72,452 |
| State funded programs. | 80 |
| Federal funded programs. | 59,041 |
| Student activities. | 46,752 |
| Other purposes | 32,254 |
| Unrestricted | 12,008,063 |
| Total net assets | \$ 17,321,328 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|--------------------------------------|--|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 3,476,049 | \$ 34,940 | \$ 73,824 | \$ 544 | \$ (3,366,741) |
| Special | 1,059,199 | - | 293,493 | - | (765,706) |
| Vocational | 208,264 | - | - | - | (208,264) |
| Support services: | | | | | |
| Pupil | 425,540 | - | 47,923 | - | (377,617) |
| Instructional staff | 376,502 | - | 24,774 | - | (351,728) |
| Board of education | 37,112 | - | - | - | (37,112) |
| Administration | 691,200 | - | 3,970 | - | (687,230) |
| Fiscal | 323,285 | - | 3,793 | 1,190 | (318,302) |
| Operations and maintenance | 588,916 | - | - | 17,947 | (570,969) |
| Pupil transportation | 640,196 | - | - | - | (640,196) |
| Central | 146,581 | - | - | - | (146,581) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 241,387 | 190,979 | 56,752 | - | 6,344 |
| Other non-instructional services | 500 | - | - | - | (500) |
| Extracurricular activities | 320,672 | 115,166 | - | - | (205,506) |
| Interest and fiscal charges | 438,478 | - | - | - | (438,478) |
| Total governmental activities | \$ 8,973,881 | \$ 341,085 | \$ 504,529 | \$ 19,681 | (8,108,586) |
| General Revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 2,101,788 |
| Special revenue | | | | | 36,036 |
| Debt service | | | | | 489,019 |
| Capital projects | | | | | 204,456 |
| Grants and entitlements not restricted to specific programs | | | | | |
| Investment earnings | | | | | 4,028,591 |
| Decrease in fair value of investments | | | | | 247,301 |
| Miscellaneous | | | | | (77,984) |
| | | | | | 178,802 |
| Total general revenues | | | | | 7,208,009 |
| Change in net assets | | | | | (900,577) |
| Net assets at beginning of year | | | | | 18,221,905 |
| Net assets at end of year | | | | | \$ 17,321,328 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | <u>General</u> | <u>Bond Retirement</u> | <u>Building</u> | <u>Classroom Facilities</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|---------------------|---------------------------------|---|---|
| Assets: | | | | | | |
| Equity in pooled cash and cash equivalents | \$ 536,452 | \$ 176,205 | \$ 2,212,855 | \$ 4,087,002 | \$ 664,276 | \$ 7,676,790 |
| Investments | - | - | 377,191 | 5,934,976 | 4,238 | 6,316,405 |
| Receivables: | | | | | | |
| Taxes | 1,810,033 | 470,031 | - | - | 228,902 | 2,508,966 |
| Accounts | 6,727 | - | - | - | 315 | 7,042 |
| Intergovernmental | - | - | - | 9,510,192 | 54,231 | 9,564,423 |
| Accrued interest | 4,601 | - | 5,204 | 25,000 | 139 | 34,944 |
| Interfund receivable | 58,250 | - | - | - | 800 | 59,050 |
| Advances to other funds | 4,500 | - | - | - | - | 4,500 |
| Prepayments | 33,503 | - | - | - | - | 33,503 |
| Materials and supplies inventory | - | - | - | - | 1,175 | 1,175 |
| Restricted assets: | | | | | | |
| Equity in pooled cash and cash equivalents | 48,784 | - | - | - | - | 48,784 |
| Total assets | <u>\$ 2,502,850</u> | <u>\$ 646,236</u> | <u>\$ 2,595,250</u> | <u>\$ 19,557,170</u> | <u>\$ 954,076</u> | <u>\$ 26,255,582</u> |
| Liabilities: | | | | | | |
| Accounts payable | \$ 18,278 | \$ - | \$ - | \$ - | \$ 1,526 | \$ 19,804 |
| Contracts payable | - | - | 647,588 | 958,372 | - | 1,605,960 |
| Accrued wages and benefits | 479,686 | - | - | - | 11,647 | 491,333 |
| Pension obligation payable | 136,103 | - | - | - | 5,092 | 141,195 |
| Intergovernmental payable | 23,181 | - | - | - | 2,148 | 25,329 |
| Interfund payable | 800 | - | - | - | 58,250 | 59,050 |
| Advances from other funds | - | - | - | - | 4,500 | 4,500 |
| Deferred revenue | 1,374,244 | 384,611 | - | 9,510,192 | 238,782 | 11,507,829 |
| Total liabilities | <u>2,032,292</u> | <u>384,611</u> | <u>647,588</u> | <u>10,468,564</u> | <u>321,945</u> | <u>13,855,000</u> |
| Fund Balances: | | | | | | |
| Reserved for encumbrances | 15,417 | - | 19,538 | 60,345 | 25,894 | 121,194 |
| Reserved for materials and supplies inventory | - | - | - | - | 1,175 | 1,175 |
| Reserved for prepayments | 33,503 | - | - | - | - | 33,503 |
| Reserved for property tax unavailable for appropriation | 295,620 | 85,420 | - | - | 38,820 | 419,860 |
| Reserved for BWC refunds | 24,392 | - | - | - | - | 24,392 |
| Reserved for advances | 4,500 | - | - | - | - | 4,500 |
| Reserved for debt service | - | 176,205 | - | - | - | 176,205 |
| Unreserved, undesignated, reported in: | | | | | | |
| General fund | 97,126 | - | - | - | - | 97,126 |
| Special revenue funds | - | - | - | - | 169,967 | 169,967 |
| Capital projects funds | - | - | 1,928,124 | 9,028,261 | 396,275 | 11,352,660 |
| Total fund balances | <u>470,558</u> | <u>261,625</u> | <u>1,947,662</u> | <u>9,088,606</u> | <u>632,131</u> | <u>12,400,582</u> |
| Total liabilities and fund balances | <u>\$ 2,502,850</u> | <u>\$ 646,236</u> | <u>\$ 2,595,250</u> | <u>\$ 19,557,170</u> | <u>\$ 954,076</u> | <u>\$ 26,255,582</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

| | | |
|--|------------------|-----------------------------|
| Total governmental fund balances | | \$ 12,400,582 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 3,529,027 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 166,397 | |
| Intergovernmental revenue | <u>9,558,892</u> | |
| Total | | 9,725,289 |
| Unamortized bond issuance costs are not recognized in the funds. | | 131,341 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| General obligation bonds payable | (7,821,377) | |
| Notes payable | (81,336) | |
| Capital lease obligation payable | (81,488) | |
| Accrued interest payable | (84,468) | |
| Compensated absences payable | <u>(396,242)</u> | |
| Total | | <u>(8,464,911)</u> |
| Net assets of governmental activities | | <u><u>\$ 17,321,328</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

| | General | Bond Retirement | Building | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------|---------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | | |
| From local sources: | | | | | | |
| Taxes | \$ 2,064,130 | \$ 478,048 | \$ - | \$ - | \$ 235,962 | \$ 2,778,140 |
| Tuition. | 11,861 | - | - | - | - | 11,861 |
| Earnings on investments. | 22,399 | - | 58,013 | 165,836 | 1,053 | 247,301 |
| Charges for services. | - | - | - | - | 190,979 | 190,979 |
| Extracurricular. | - | - | - | - | 114,944 | 114,944 |
| Classroom materials and fees | - | - | - | - | 23,301 | 23,301 |
| Other local revenues. | 17,711 | - | 1,000 | - | 160,091 | 178,802 |
| Intergovernmental - state. | 3,977,759 | 50,832 | - | 5,540,032 | 54,276 | 9,622,899 |
| Intergovernmental - federal | - | - | - | - | 470,000 | 470,000 |
| Decrease in fair value | - | - | - | (77,984) | - | (77,984) |
| Total revenues | <u>6,093,860</u> | <u>528,880</u> | <u>59,013</u> | <u>5,627,884</u> | <u>1,250,606</u> | <u>13,560,243</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 2,578,675 | - | - | - | 234,315 | 2,812,990 |
| Special. | 593,277 | - | - | - | 273,440 | 866,717 |
| Vocational. | 177,463 | - | - | - | - | 177,463 |
| Support services: | | | | | | |
| Pupil. | 324,441 | - | - | - | 43,827 | 368,268 |
| Instructional staff | 260,486 | - | - | - | 32,826 | 293,312 |
| Board of education | 37,112 | - | - | - | - | 37,112 |
| Administration. | 654,282 | - | - | - | 8,062 | 662,344 |
| Fiscal | 237,108 | 10,222 | - | - | 5,145 | 252,475 |
| Operations and maintenance. | 457,986 | - | - | - | 69,356 | 527,342 |
| Pupil transportation | 445,419 | - | - | - | 21,905 | 467,324 |
| Central. | 86,233 | - | - | - | - | 86,233 |
| Other non-instructional services. | - | - | - | - | 500 | 500 |
| Food service operations | - | - | - | - | 245,494 | 245,494 |
| Extracurricular activities. | 243,493 | - | - | - | 68,139 | 311,632 |
| Facilities acquisition and construction | - | - | 1,084,453 | 2,474,254 | - | 3,558,707 |
| Debt service: | | | | | | |
| Principal retirement | 20,356 | 178,970 | - | - | - | 199,326 |
| Interest and fiscal charges | 2,792 | 387,341 | - | - | - | 390,133 |
| Total expenditures | <u>6,119,123</u> | <u>576,533</u> | <u>1,084,453</u> | <u>2,474,254</u> | <u>1,003,009</u> | <u>11,257,372</u> |
| Excess of revenues over (under) expenditures. | <u>(25,263)</u> | <u>(47,653)</u> | <u>(1,025,440)</u> | <u>3,153,630</u> | <u>247,597</u> | <u>2,302,871</u> |
| Other financing sources (uses): | | | | | | |
| Transfers in. | - | 70,167 | - | - | - | 70,167 |
| Transfers (out) | (70,167) | - | - | - | - | (70,167) |
| Total other financing sources (uses) | <u>(70,167)</u> | <u>70,167</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (95,430) | 22,514 | (1,025,440) | 3,153,630 | 247,597 | 2,302,871 |
| Fund balances at beginning of year (restated) | 565,988 | 239,111 | 2,973,102 | 5,934,976 | 384,534 | 10,097,711 |
| Fund balances at end of year. | <u>\$ 470,558</u> | <u>\$ 261,625</u> | <u>\$ 1,947,662</u> | <u>\$ 9,088,606</u> | <u>\$ 632,131</u> | <u>\$ 12,400,582</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

| | | |
|---|-----------|------------------|
| Net change in fund balances - total governmental funds | \$ | 2,302,871 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$2,288,788) exceeds depreciation expense (\$114,761) current period. | | 2,174,027 |
| The net effect of various miscellaneous transactions involving capital assets (i.e.: disposals, sales, trade-ins, and donations) is to decrease net assets. | | (24,214) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (5,486,939) |
| Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. | | (9,381) |
| Repayment of bond, note, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. | | 199,326 |
| Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds. | | (38,964) |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | (17,303) |
| Change in net assets of governmental activities | \$ | (900,577) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 1,611,000 | \$ 1,731,000 | \$ 1,892,827 | \$ 161,827 |
| Tuition. | 7,604 | 7,398 | 6,901 | (497) |
| Earnings on investments. | 22,859 | 22,241 | 20,746 | (1,495) |
| Other local revenues | 11,542 | 11,230 | 10,475 | (755) |
| Intergovernmental - state | <u>4,382,898</u> | <u>4,264,327</u> | <u>3,977,759</u> | <u>(286,568)</u> |
| Total revenues. | <u>6,035,903</u> | <u>6,036,196</u> | <u>5,908,708</u> | <u>(127,488)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,704,805 | 2,624,352 | 2,588,381 | 35,971 |
| Special. | 514,274 | 546,278 | 626,123 | (79,845) |
| Vocational. | 187,835 | 182,967 | 177,629 | 5,338 |
| Support services: | | | | |
| Pupil. | 327,006 | 328,254 | 325,088 | 3,166 |
| Instructional staff | 243,771 | 261,888 | 259,901 | 1,987 |
| Board of education | 35,049 | 33,049 | 38,061 | (5,012) |
| Administration. | 738,666 | 677,598 | 653,821 | 23,777 |
| Fiscal | 244,942 | 225,262 | 235,111 | (9,849) |
| Operations and maintenance. | 546,285 | 554,884 | 499,636 | 55,248 |
| Pupil transportation | 508,346 | 485,505 | 445,250 | 40,255 |
| Central. | 89,083 | 94,478 | 85,669 | 8,809 |
| Extracurricular activities. | <u>239,001</u> | <u>241,206</u> | <u>242,846</u> | <u>(1,640)</u> |
| Total expenditures | <u>6,379,063</u> | <u>6,255,721</u> | <u>6,177,516</u> | <u>78,205</u> |
| Excess of revenues over (under) expenditures. | <u>(343,160)</u> | <u>(219,525)</u> | <u>(268,808)</u> | <u>(49,283)</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditure. | 6,061 | 5,896 | 5,501 | (395) |
| Transfers (out) | (77,000) | (77,000) | (70,167) | 6,833 |
| Advances in. | 4,738 | 4,610 | 4,300 | (310) |
| Advances (out) | <u>(65,000)</u> | <u>(65,000)</u> | <u>(58,250)</u> | <u>6,750</u> |
| Total other financing sources (uses) | <u>(131,201)</u> | <u>(131,494)</u> | <u>(118,616)</u> | <u>12,878</u> |
| Net change in fund balance | (474,361) | (351,019) | (387,424) | (36,405) |
| Fund balance at beginning of year. | 908,728 | 908,728 | 908,728 | - |
| Prior year encumbrances appropriated | 36,974 | 36,974 | 36,974 | - |
| Fund balance at end of year | <u>\$ 471,341</u> | <u>\$ 594,683</u> | <u>\$ 558,278</u> | <u>\$ (36,405)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 1,511 | \$ 38,393 |
| Investments | 5,200 | - |
| | 6,711 | - |
| Total assets. | 6,711 | \$ 38,393 |
| Liabilities: | | |
| Intergovernmental payable | - | \$ 4 |
| Due to students | - | 38,389 |
| | - | 38,389 |
| Total liabilities | - | \$ 38,393 |
| Net Assets: | | |
| Held in trust for scholarships | 6,711 | |
| Total net assets | \$ 6,711 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 216 |
| Total additions. | 216 |
| Deductions: | |
| Scholarships awarded | 175 |
| Change in net assets | 41 |
| Net assets at beginning of year | 6,670 |
| Net assets at end of year | \$ 6,711 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 building that is composed of its elementary, middle school and high school. The District employs 33 non-certified and 62 certified (including administrative) full-time and part-time employees to provide services to approximately 846 students in grades K through 12 and various community groups, which ranks it 536th out of 614 public school districts in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Career Center

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

Western Ohio Computer Organization (“WOCO”)

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

RELATED ORGANIZATIONS

Mechanicsburg Public Library (the “Library”)

The Mechanicsburg Public Library is an organization related to the District. The District Board members are responsible for appointing the trustees of the Library; however, the District Board cannot influence the Library’s operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library determines its own budget. The Library did not receive any funding from the District during fiscal year 2005.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers’ Compensation Group Rating Plan

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

PUBLIC ENTITY RISK POOL

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except Agency funds). The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

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

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

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

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, food service fund, special trust fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$22,399, which includes \$16,628 assigned from other funds.

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

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

G. Inventory

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

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

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

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

I. Interfund Balances

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

J. Compensated Absences

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

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

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

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

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

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

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

R. Unamortized Bond Issuance Costs and Bond Premium

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principals

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

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

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

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

| | <u>General</u> | <u>Bond Retirement</u> | <u>Building</u> | <u>Classroom Facilities</u> | <u>Nonmajor</u> | <u>Total</u> |
|--------------------------------------|-------------------|----------------------------|---------------------|---------------------------------|-------------------|----------------------|
| Fund Balances, June 30, 2004 | \$ 611,195 | \$ 239,111 | \$ 2,973,102 | \$ 5,934,976 | \$ 392,230 | \$ 10,150,614 |
| GASB Technical Bulletin No. 2004-2 | <u>(45,207)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(7,696)</u> | <u>(52,903)</u> |
| Restated Fund Balance, June 30, 2004 | <u>\$ 565,988</u> | <u>\$ 239,111</u> | <u>\$ 2,973,102</u> | <u>\$ 5,934,976</u> | <u>\$ 384,534</u> | <u>\$ 10,097,711</u> |

B. Deficit Fund Balances

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

| | <u>Deficit</u> |
|----------------------------------|----------------|
| <u>Nonmajor Funds</u> | |
| Management Information Systems | \$ 38 |
| Entry Year Programs | 11 |
| DPIA | 36 |
| Summer Intervention | 78 |
| Vocational Education Enhancement | 92 |
| Title VI | 1,225 |
| Drug Free School Grant | 917 |
| Class-Size Reduction | 275 |
| Miscellaneous Federal Grants | 1,764 |

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

C. Noncompliance

In noncompliance with Ohio Revised Code Section 5705.41(B), the following funds had expenditures in excess of appropriations for the year ended June 30, 2005.

| <u>Fund Type</u> | <u>Fund</u> | <u>Excess</u> |
|------------------|-----------------|---------------|
| Special Revenue | Food Service | \$ 5,523 |
| Debt Service | Bond Retirement | 160,266 |

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$2,810,166. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2,755,592 of the District's bank balance of \$2,965,575 was exposed to custodial risk as discussed below, while \$209,983 was covered by Federal Deposit Insurance Corporation.

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | |
|------------------------|----------------------|------------------------------|---------------------------|----------------------------|----------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>13 to 18 months</u> | <u>19 to 24 months</u> |
| STAR Ohio | \$ 5,981,312 | \$ 5,981,312 | \$ - | \$ - | \$ - |
| FHLB | 2,374,118 | 915,609 | 654,535 | 653,236 | 150,738 |
| FHLMC | 428,925 | 428,925 | - | - | - |
| FNMA | <u>2,489,662</u> | <u>887,660</u> | <u>1,312,075</u> | <u>289,927</u> | <u>-</u> |
| Total | <u>\$ 11,274,017</u> | <u>\$ 8,213,506</u> | <u>\$ 1,966,610</u> | <u>\$ 943,163</u> | <u>\$ 150,738</u> |

The weighted average maturity of investments is .31 years.

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

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|----------------------|-------------------|
| STAR Ohio | \$ 5,981,312 | 53.05 |
| FHLB | 2,374,118 | 21.06 |
| FHLMC | 428,925 | 3.80 |
| FNMA | <u>2,489,662</u> | <u>22.09</u> |
| | <u>\$ 11,274,017</u> | <u>100.00</u> |

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

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

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CHAMPAIGN COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

| | |
|---|----------------------|
| <u>Cash and investments per footnote</u> | |
| Carrying amount of deposits | \$ 2,810,166 |
| Investments | 11,274,017 |
| Cash on hand | <u>2,900</u> |
| Total | <u>\$ 14,087,083</u> |
| <u>Cash and investments per Statement of Net Assets</u> | |
| Governmental activities | \$ 14,041,979 |
| Private-purpose trust funds | 6,711 |
| Agency funds | <u>38,393</u> |
| Total | <u>\$ 14,087,083</u> |

NOTE 5 - INTERFUND TRANSACTIONS

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

| | |
|---------------------------------|-----------|
| Transfers from General fund to: | |
| Bond Retirement fund | \$ 70,167 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|-----------------------------|---------------|
| General | Nonmajor governmental funds | \$ 58,250 |
| Other Governmental Funds | General Fund | 800 |

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, 2005 are reported on the statement of net assets.

- C.** Interfund balances at June 30, 2005 as reported on the fund statements consist of the following long-term advances receivable and payable:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|---------------|
| General | Nonmajor governmental funds | \$ 4,500 |

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

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2005 was \$295,620 in the general fund, \$85,420 in the bond retirement fund, \$32,580 in the permanent improvement fund and \$6,240 in the classroom facilities maintenance fund. The amount available as an advance at June 30, 2004 was, \$127,100 in the general fund, \$36,470 in the bond retirement fund, \$14,550 in the permanent improvement fund and \$2,760 in the classroom facilities maintenance fund.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

| | 2004 Second Half Collections | | 2005 First Half Collections | |
|---|---------------------------------|----------------------|--------------------------------|----------------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 62,374,840 | 90.56 | \$ 67,665,180 | 91.01 |
| Public utility personal | 3,364,480 | 4.89 | 3,153,641 | 4.24 |
| Tangible personal property | <u>3,137,766</u> | <u>4.55</u> | <u>3,529,242</u> | <u>4.75</u> |
| Total | <u>\$ 68,877,086</u> | <u>100.00</u> | <u>\$ 74,348,063</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation: | | | | |
| Operations | \$ 29.80 | | \$ 28.80 | |
| Permanent Improvement | 5.00 | | 5.00 | |
| Debt Service | 6.56 | | 6.56 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

| | |
|-------------------|-----------------------------|
| Taxes | \$ 2,508,966 |
| Accounts | 7,042 |
| Intergovernmental | 9,564,423 |
| Accrued interest | <u>34,944</u> |
| Total | <u>\$ 12,115,375</u> |

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

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

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

NOTE 8 - INCOME TAXES

The District levies a voted income tax of one half of one percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1997 and is in effect for a continual period of time. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$361,424 for fiscal year 2005. Taxes receivable reported in the basic financial statements includes \$140,169 of income tax receivable.

NOTE 9 - CAPITAL ASSETS

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

| | <u>Balance</u> <u>06/30/04</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>06/30/05</u> |
|---|-----------------------------------|---------------------|--------------------|-----------------------------------|
| Governmental Activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 42,500 | \$ 250,000 | \$ - | \$ 292,500 |
| Construction in progress | <u>217,557</u> | <u>1,952,748</u> | <u>-</u> | <u>2,170,305</u> |
| Total capital assets, not being depreciated | <u>260,057</u> | <u>2,202,748</u> | <u>-</u> | <u>2,462,805</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 24,790 | - | - | 24,790 |
| Buildings and improvements | 2,839,206 | - | - | 2,839,206 |
| Furniture and equipment | 1,130,112 | 81,040 | (65,913) | 1,145,239 |
| Vehicles | <u>601,151</u> | <u>5,000</u> | <u>(10,850)</u> | <u>595,301</u> |
| Total capital assets, being depreciated | <u>4,595,259</u> | <u>86,040</u> | <u>(76,763)</u> | <u>4,604,536</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land improvements | (4,710) | (2,204) | - | (6,914) |
| Buildings and improvements | (2,640,435) | (11,541) | - | (2,651,976) |
| Furniture and equipment | (478,994) | (67,169) | 41,699 | (504,464) |
| Vehicles | <u>(351,963)</u> | <u>(33,847)</u> | <u>10,850</u> | <u>(374,960)</u> |
| Total accumulated depreciation | <u>(3,476,102)</u> | <u>(114,761)</u> | <u>52,549</u> | <u>(3,538,314)</u> |
| Governmental activities capital assets, net | <u>\$ 1,379,214</u> | <u>\$ 2,174,027</u> | <u>\$ (24,214)</u> | <u>\$ 3,529,027</u> |

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

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

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 29,268 |
| Special | 3,449 |
| Vocational | 2,064 |
| <u>Support Services:</u> | |
| Pupil | 1,023 |
| Instructional staff | 625 |
| Administration | 5,644 |
| Fiscal | 1,060 |
| Operations and maintenance | 15,597 |
| Pupil transportation | 39,926 |
| Central | 3,379 |
| Extracurricular activities | 5,722 |
| Facilities acquisition and construction | 5,468 |
| Food service operations | <u>1,536</u> |
| Total depreciation expense | <u>\$ 114,761</u> |

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

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

General capital assets acquired by capital lease have been capitalized in the amount of \$241,707, which is equal to the present value of the future minimum lease payments as of the date of their inception. Principal payments in fiscal year 2005 totaled \$20,356.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005.

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

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

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

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|--|------------------|
| 2006 | \$ 26,197 |
| 2007 | 20,664 |
| 2008 | 20,664 |
| 2009 | <u>18,942</u> |
| Total minimum lease payments | 86,467 |
| Less: amount representing interest | <u>(4,979)</u> |
| Total | <u>\$ 81,488</u> |

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The following is a description of the District's long-term debt obligations outstanding as of June 30, 2005:

| | <u>Balance Outstanding 06/30/04</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance Outstanding 06/30/05</u> | <u>Amounts Due in One Year</u> |
|--|---|------------------|---------------------|---|--|
| Governmental Activities: | | | | | |
| General obligation current interest bonds | \$ 7,580,000 | \$ - | \$ (110,000) | \$ 7,470,000 | \$ 150,000 |
| General obligation capital appreciation bonds | 195,265 | - | - | 195,265 | - |
| General obligation capital appreciation bonds-accreted interest | 1,698 | 20,852 | - | 22,550 | - |
| Bond anticipation notes payable | - | - | - | - | - |
| General obligation notes payable | 36,710 | - | (36,710) | - | - |
| Notes payable | 110,125 | - | (28,789) | 81,336 | 25,783 |
| Capital lease obligation payable | 101,844 | - | (20,356) | 81,488 | 23,908 |
| Compensated absences payable | <u>378,939</u> | <u>47,128</u> | <u>(29,825)</u> | <u>396,242</u> | <u>21,970</u> |
| Total long-term obligations | 8,408,052 | <u>\$ 67,980</u> | <u>\$ (229,151)</u> | 8,246,881 | <u>\$ 221,661</u> |
| Amortized premium on bonds | <u>143,102</u> | | | <u>133,562</u> | |
| Long-term liabilities reported on Statement of Net Assets | <u>\$ 8,551,154</u> | | | <u>\$ 8,380,443</u> | |

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

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

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The capital appreciation bonds mature at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The present value reported on the statement of net assets at June 30, 2005 is \$195,265. Total accreted interest of \$22,550 has been included on the statement of net assets.

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

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

Energy conservation notes, series 1997: The energy conservation notes, series 1997, were issued on August 15, 1996, mature on August 1, 2004, and carry an interest rate of 5.49%. The energy conservation notes were issued in order to provide for energy improvements to District facilities, and the source of payment is derived through the energy savings attained as a result of the energy improvements. Notes were retired in fiscal year 2005.

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

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005 are as follows:

| <u>Year Ended</u> | <u>Current Interest Bonds, Series 2004</u> | | | <u>Capital Appreciation Bonds, Series 2005</u> | | |
|-------------------|--|---------------------|----------------------|--|-----------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 150,000 | \$ 327,207 | \$ 477,207 | \$ - | \$ - | \$ - |
| 2007 | 165,000 | 324,207 | 489,207 | - | - | - |
| 2008 | 175,000 | 320,907 | 495,907 | - | - | - |
| 2009 | 190,000 | 316,969 | 506,969 | - | - | - |
| 2010 | 205,000 | 311,744 | 516,744 | - | - | - |
| 2011 - 2015 | 860,265 | 1,735,961 | 2,596,226 | 440,000 | - | 440,000 |
| 2016 - 2020 | 1,300,000 | 1,300,460 | 2,600,460 | - | - | - |
| 2021 - 2025 | 1,615,000 | 983,286 | 2,598,286 | - | - | - |
| 2026 - 2030 | 2,040,000 | 557,000 | 2,597,000 | - | - | - |
| 2031 - 2032 | <u>965,000</u> | <u>73,000</u> | <u>1,038,000</u> | - | - | - |
| Total | <u>\$ 7,665,265</u> | <u>\$ 6,250,741</u> | <u>\$ 13,916,006</u> | <u>\$ 440,000</u> | <u>\$ -</u> | <u>\$ 440,000</u> |

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

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

| <u>Year Ended</u> | <u>Notes Payable, Series 2004</u> | | |
|-------------------|-----------------------------------|-----------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 25,783 | \$ 4,123 | \$ 29,906 |
| 2006 | 27,090 | 2,816 | 29,906 |
| 2007 | 28,463 | 1,443 | 29,906 |
| 2009 | - | - | - |
| Total | <u>\$ 81,336</u> | <u>\$ 8,382</u> | <u>\$ 89,718</u> |

NOTE 12 - RISK MANAGEMENT

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

The District provides medical/surgical benefits to its employees through the United Health Care of Ohio, Inc., a fully funded program. The District has elected to provide employee dental insurance, life insurance, accidental death and dismemberment insurance through G. E. Financial Assurance, a fully funded program.

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

During fiscal year 2005, the District contracted with Selective Insurance Company for property and fleet insurance, liability insurance and inland marine coverage. Coverage's provided by Selective Insurance Company are as follows:

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

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

There has been no significant reduction in coverage from fiscal year 2004.

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

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

NOTE 12 - RISK MANAGEMENT - (Continued)

OSBA WORKER'S COMPENSATION GROUP RATING

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

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$110,512, \$106,606 and \$95,158, respectively; 37.46% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$69,108 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$460,456, \$429,707 and \$380,150, respectively; 81.58% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$84,816 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$63 made by the District and \$4,684 made by plan members.

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, there were no employees participating in the social security system.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$32,890 during fiscal 2005.

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

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

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$51,501 during the 2005 fiscal year.

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

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ (387,424) |
| Net adjustment for revenue accruals | 185,152 |
| Net adjustment for expenditure accruals | 31,435 |
| Net adjustment for other sources/uses | 48,449 |
| Adjustment for encumbrances | 26,958 |
| GAAP basis | \$ (95,430) |

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

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

NOTE 16 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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

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

NOTE 17 - STATUTORY RESERVES

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>BWC Refund</u> |
|---|------------------------|--------------------------------|-----------------------|
| Set-aside cash balance/carry forward as of June 30, 2004 | \$ (95,588) | \$ (8,122,122) | \$ 24,392 |
| Current year set-aside requirement | 121,076 | 121,076 | - |
| Qualifying disbursements | <u>(62,034)</u> | <u>(379,226)</u> | <u>-</u> |
| Total | <u>\$ (36,546)</u> | <u>\$ (8,380,272)</u> | <u>\$ 24,392</u> |
| Cash balance carried forward to FY 2006 | <u>\$ (36,546)</u> | <u>\$ (8,122,122)</u> | <u>\$ 24,392</u> |

The District had qualifying disbursements during the year that reduced the textbooks set-a-side amount below zero. This amount may be used to reduce the set-aside requirement for future years. Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside below zero, these extra amounts may not be used to reduce the set-aside requirement in future years.

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

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District (the "District"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 19, 2005. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mechanicsburg Exempted Village School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to the management of the District in a separate letter dated December 19, 2005.

Board of Education
Mechanicsburg Exempted Village School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mechanicsburg Exempted Village School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standard* which is described in the accompanying schedule of findings as item 2005-MEVSD-001. We also noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 19, 2005.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
December 19, 2005

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

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

| | |
|---|--|
| 1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
|---|--|

| | |
|----------------|----------------|
| Finding Number | 2005-MEVSD-001 |
|----------------|----------------|

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures in excess of appropriations within the Bond Retirement Fund by \$160,266 and the Food Service fund by \$5,523.

The District is expending monies that have not been approved by the Board of Education. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary.

Client Response: The Treasurer is attempting to request additional amended appropriations from the Board when additional expenditures need to be spent.



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MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 23, 2006**