MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

SINGLE AUDIT

JULY 1, 2006 - JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Mount Vernon City School District, Knox County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2008

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KNOX COUNTY

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio (the District) as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Wilson, Shannon & Snow, Inc.

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

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

Wilson, Shannon & Snow, Inc.

Newark, Ohio
December 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The discussion and analysis of the financial performance of the Mount Vernon City School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- In total, net assets decreased $1,378,633, or 5%.
- General revenues accounted for $29,660,910, or 82% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions, and capital grants accounted for $6,349,120, or 18% of total revenues of $36,010,030.
- The District's major fund is the General Fund. The General Fund had $29,929,076 in revenues and $30,840,133 in expenditures and other financing uses. The General Fund's balance decreased $911,057 from the prior fiscal year.

Using the Basic Financial Statements

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

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

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

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

While these documents contain information about the large number of funds used by the District to provide programs and activities for students, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2007. A comparative analysis of fiscal year 2007 to 2006 follows:

Table 1
Net Assets
Governmental Activities

	2007	2006
Assets:		
Current and Other Assets	$31,815,044	$33,438,705
Capital Assets, Net	20,889,581	21,514,736
Total Assets	52,704,625	54,953,441
Liabilities:		
Current and Other Liabilities	14,267,457	14,657,732
Long-Term Liabilities	9,338,783	9,818,691
Total Liabilities	23,606,240	24,476,423
Net Assets:		
Invested in Capital Assets, Net of Related Debt	12,907,086	12,945,571
Restricted	5,574,067	5,491,445
Unrestricted	10,617,232	12,040,002
Total	$29,098,385	$30,477,018

Total assets decreased $2,248,816 which was primarily attributed to decreases in cash and receivables off-set by changes in capital assets.

Total liabilities decreased $870,183. There was a decrease of $479,908 net reduction of long-term liabilities and a decrease of $390,275 in current and other liabilities.

The significant changes in the long-term liabilities are a result the District continuing to repay its outstanding debt.

Table 2 reflects the changes in net assets for fiscal year 2007. A comparative analysis of fiscal year 2007 to 2006 follows:

Table 2
Change in Net Assets
Governmental Activities

	2007	2006
Revenues:		
Program Revenues:		
Charges for Services and Sales	$1,997,689	$1,824,323
Operating Grants and Contributions	4,326,093	3,237,684
Capital Grants and Contributions	25,338	-
Total Program Revenues	6,349,120	5,062,007
General Revenues:		
Property Taxes	14,242,076	17,330,758
Grants and Entitlements	13,567,670	13,773,591
Interest	842,570	694,138
Gifts and Donations	22,257	9,943
Sale of Land	-	137,500
Miscellaneous	986,337	591,972
Total General Revenues	29,660,910	32,537,902
Special Item	-	850,000
Total Revenues	36,010,030	38,449,909
Expenses:		
Instruction	21,073,757	20,098,915
Support Services:		
Pupils	1,749,868	1,557,509
Instructional Staff	1,992,944	1,912,135
Board of Education	48,113	49,925
Administration	2,292,049	2,094,497
Fiscal	2,330,253	2,287,391
Business	216,686	179,018
Operation and Maintenance of Plant	2,747,992	4,121,014
Pupil Transportation	1,539,614	1,441,201
Central	147,592	25,156
Non-Instructional	2,255,116	1,412,979
Extracurricular Activities	674,953	649,075
Interest and Fiscal Charges	319,726	334,929
Total Expenses	37,388,663	36,163,744
Change in Net Assets	(1,378,633)	2,286,165
Net Assets Beginning of Year	30,477,018	28,190,853
Net Assets End of Year	$29,098,385	$30,477,018

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

Our District, which is dependent on property taxes and income taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 48 percent of revenues for governmental activities for the District in fiscal year 2007.

Over the past several years the District has experienced a significant amount of growth. The District is located in Knox County, and includes the City of Mount Vernon, all of the Village of Gambier, and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships in Knox County. The total assessed values upon which taxes are collected decreased by $7,049,508 from fiscal year 2006 to fiscal year 2007.

Instruction comprises approximately 58 percent of governmental program expenses, and support services make up approximately 36 percent of the program expenses of the District.

Property tax revenue decreased $3,088,682. The decrease was attributed to the collection of delinquent taxes and the reappraisal of real property in fiscal year 2005.

Governmental Activities

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

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Table 3
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Instruction	$21,073,757	$16,287,819	$20,098,915	$16,564,922
Support Services:				
Pupils	1,749,868	1,651,388	1,557,509	1,507,923
Instructional Staff	1,992,944	1,925,734	1,912,135	1,901,780
Board of Education	48,113	48,113	49,925	49,925
Administration	2,292,049	2,292,049	2,094,497	2,094,297
Fiscal	2,330,253	2,317,073	2,287,391	2,274,059
Business	216,686	210,469	179,018	179,018
Operation and Maintenance of Plant	2,747,992	2,723,992	4,121,014	4,094,014
Pupil Transportation	1,539,614	1,495,901	1,441,201	1,441,201
Central	147,592	147,592	25,156	25,156
Non-Instructional	2,255,116	1,086,843	1,412,979	95,190
Extracurricular Activities	674,953	532,844	649,075	539,323
Interest and Fiscal Charges	319,726	319,726	334,929	334,929
Total Expenses	$37,388,663	$31,039,543	$36,163,744	$31,101,737

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 76 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 82 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of $35,610,064 and expenditures of $36,749,197. The net negative change of $1,139,058 in fund balance for the year indicates the District was in a deficit spending situation.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2007, the District amended its General Fund budget as needed.

Final expenditures were budgeted at $32,193,964 while actual expenditures were $31,395,193. The $798,771 difference is primarily due to a conservative "worst case scenario" approach. The District appropriates total estimated resources available regardless of need.

The final estimated receipts of $22,228,574 decreased from the original estimated receipts of $28,008,616, a decrease of $5,780,042. The net change in fund balance was ($1,071,445).

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had $20,889,581 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see Note 7 to the basic financial statements.

Debt

At June 30, 2007, the District had $7,567,214 for outstanding general obligation bonds to build the Mount Vernon Middle School. The District also had $236,313 in an outstanding Energy Construction loan. The bond and loan are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2007, the District's overall legal debt margin was $41,946,252, with an un-voted debt margin of $550,150.

For further information regarding the District's debt, see Note 13 to the basic financial statements.

Current Issues

The District continues to receive strong support from the residents. The District relies heavily on its local property taxpayers. The last operating levy, a 3 mill renewal, passed by the residents of the District was in November 2005 and is expected to generate $1,625,000 over the next five years. The District's voters recently approved a 5 year, 2 mill permanent improvement levy which is expected to generate $900,000.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

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

The District current five-year forecast is projecting deficit spending at the end of fiscal year 2011 of ($243,347), with positive ending cash balances for fiscal years 2008 through 2010 of $7,836,319, $5,975,910, and $3,121,944, respectively.

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

Along with the challenges set forth for the District to ensure positive operating cash flow within the General fund, the need for improved and new school facilities is ever pertinent.

Contacting the District's Financial Management

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

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

		Governmental Activities
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	$	15,008,797
Materials and Supplies Inventory		18,923
Accounts Receivable		1,027
Intergovernmental Receivable		836,907
Taxes Receivable		15,949,390
Non-Depreciable Capital Assets		230,664
Depreciable Capital Assets, Net		20,658,917
Total Assets		**52,704,625**
LIABILITIES:		
Accounts Payable		603,073
Accrued Wages and Benefits		2,584,673
Intergovernmental Payable		709,599
Matured Compensated Absences Payable		101,216
Unearned Revenue		9,663,181
Claims Payable		605,715
Long-Term Liabilities:		
Due Within One Year		672,116
Due in More Than One Year		8,666,667
Total Liabilities		**23,606,240**
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		12,907,086
Restricted for Debt Service		2,070,989
Restricted for Capital Projects		2,515,772
Restricted for Other Purposes		987,306
Unrestricted		10,617,232
Total Net Assets	**$**	**29,098,385**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		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	$ 16,792,695	$ 1,294,415	$ 394,283	$ 25,338	$ (15,078,659)
Special	3,888,341	-	3,026,852	-	(861,489)
Vocational	392,721	-	45,050	-	(347,671)
Support Services:					
Pupils	1,749,868	7,018	91,462	-	(1,651,388)
Instructional Staff	1,992,944	-	67,210	-	(1,925,734)
Board of Education	48,113	-	-	-	(48,113)
Administration	2,292,049	-	-	-	(2,292,049)
Fiscal	2,330,253	-	13,180	-	(2,317,073)
Business	216,686	6,217	-	-	(210,469)
Operation and Maintenance of Plant	2,747,992	-	24,000	-	(2,723,992)
Pupil Transportation	1,539,614	-	43,713	-	(1,495,901)
Central	147,592	-	-	-	(147,592)
Operation of Non-Instructional Services	2,255,116	547,930	620,343	-	(1,086,843)
Extracurricular Activities	674,953	142,109	-	-	(532,844)
Interest and Fiscal Charges	319,726	-	-	-	(319,726)
Total Governmental Activities	**$ 37,388,663**	**$ 1,997,689**	**$ 4,326,093**	**$ 25,338**	(31,039,543)

General Revenues:	
Property Taxes Levied for:	
General Purposes	12,564,361
Capital Outlay	878,168
Debt Service	799,547
Grants and Entitlements not Restricted to Specific Programs	13,567,670
Gifts and Donations	22,257
Investment Earnings	842,570
Miscellaneous	986,337
Total General Revenues	29,660,910
Change in Net Assets	(1,378,633)
Net Assets Beginning of Year	30,477,018
Net Assets End of Year	**$ 29,098,385**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	$ 9,724,746	$ 4,499,817	$ 14,224,563
Materials and Supplies Inventory	-	18,923	18,923
Accounts Receivable	470	557	1,027
Interfund Receivable	36,900	-	36,900
Intergovernmental Receivable	-	836,907	836,907
Taxes Receivable	13,876,576	2,072,814	15,949,390
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	2,160	-	2,160
Total Assets	**$ 23,640,852**	**$ 7,429,018**	**$ 31,069,870**
LIABILITIES:			
Current Liabilities:			
Accounts Payable	$ 329,833	$ 273,240	$ 603,073
Accrued Wages and Benefits	2,483,349	100,700	2,584,049
Interfund Payable	-	36,900	36,900
Intergovernmental Payable	661,797	46,307	708,104
Matured Compensated Absences Payable	89,143	12,073	101,216
Deferred Revenue	8,420,990	2,228,552	10,649,542
Total Liabilities	**11,985,112**	**2,697,772**	**14,682,884**
EQUITY:			
Fund Balances:			
Reserved:			
Reserved for Encumbrances	594,984	270,368	865,352
Reserved for Property Taxes	5,455,586	669,469	6,125,055
Reserved for Textbooks and Instructional Materials	2,160	-	2,160
Unreserved, Undesignated, Reported in:			
General Fund	5,603,010	-	5,603,010
Special Revenue Funds	-	37,854	37,854
Debt Service Funds	-	1,754,164	1,754,164
Capital Projects Funds	-	1,999,391	1,999,391
Total Fund Balances	11,655,740	4,731,246	16,386,986
Total Liabilities and Fund Balances	**$ 23,640,852**	**$ 7,429,018**	**$ 31,069,870**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total Governmental Fund Balances		**$ 16,386,986**
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE OF THE FOLLOWING:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		20,889,581
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes Receivable		986,361
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		174,240
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	$ (7,505,000)	
Deep Discount Debt Accretion	(62,214)	
Energy Conservation Loan	(236,313)	
Compensated Absences Payable	(1,294,074)	
Capital Leases Payable	(241,182)	
		(9,338,783)
Net Assets of Governmental Activities		**$ 29,098,385**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property and Other Local Taxes	$ 12,624,886	$ 1,685,091	$ 14,309,977
Intergovernmental	14,510,003	2,977,651	17,487,654
Interest	610,339	195,886	806,225
Tuition and Fees	1,186,670	95,554	1,282,224
Rent	12,191	-	12,191
Extracurricular Activities	-	155,344	155,344
Gifts and Donations	-	22,257	22,257
Customer Sales and Services	-	547,930	547,930
Miscellaneous	984,987	1,275	986,262
Total Revenues	29,929,076	5,680,988	35,610,064
EXPENDITURES:			
Current:			
Instruction:			
Regular	15,680,329	375,118	16,055,447
Special	2,726,355	1,049,239	3,775,594
Vocational	342,641	-	342,641
Support Services:			
Pupils	1,417,462	312,882	1,730,344
Instructional Staff	1,436,690	520,661	1,957,351
Board of Education	47,912	-	47,912
Administration	2,126,888	65,994	2,192,882
Fiscal	2,216,520	52,808	2,269,328
Business	195,689	14,880	210,569
Operation and Maintenance of Plant	2,594,268	39,546	2,633,814
Pupil Transportation	1,258,649	175,711	1,434,360
Central	147,592	-	147,592
Operation of Non-Instructional Services	-	1,367,368	1,367,368
Extracurricular Activities	476,589	122,622	599,211
Capital Outlay	-	1,140,602	1,140,602
Debt Service:			
Principal	85,664	465,253	550,917
Interest	-	293,265	293,265
Total Expenditures	30,753,248	5,995,949	36,749,197
Excess of Revenues Over (Under) Expenditures	(824,172)	(314,961)	(1,139,133)
OTHER FINANCING SOURCES AND USES:			
Transfers In	-	86,885	86,885
Sale of Capital Assets	-	75	75
Transfers Out	(86,885)	-	(86,885)
Total Other Financing Sources and Uses	(86,885)	86,960	75
Net Change in Fund Balances	(911,057)	(228,001)	(1,139,058)
Fund Balance at Beginning of Year	12,566,797	4,959,247	17,526,044
Fund Balance at End of Year	**$ 11,655,740**	**$ 4,731,246**	**$ 16,386,986**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
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, 2007

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE OF THE FOLLOWING:

Net Change in Fund Balances - Total Governmental Funds		**$ (1,139,058)**
Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.		
Capital Outlay - Depreciable Capital Assets	$ 410,359	
Depreciation	(1,035,145)	
		(624,786)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins and donations) is to decrease net assets.		(369)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:		
Intergovernmental	431,447	
Property Taxes	(67,901)	
		363,546
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		550,917
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest is accrued, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on capital appreciation bonds.		(26,461)
The internal service fund is not included in governmental fund financial statements.		(457,874)
Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:		
Compensated Absences Payable	(44,548)	
		(44,548)
Change in Net Assets of Governmental Activities		**$ (1,378,633)**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30 ,2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property and Other Local Taxes	$ 13,137,726	$ 9,530,080	$ 13,018,165	$ 3,488,085
Intergovernmental	13,116,242	10,640,812	14,510,003	3,869,191
Interest	263,841	444,293	610,339	166,046
Tuition and Fees	983,257	866,371	1,187,980	321,609
Rent	16,251	22,215	12,191	(10,024)
Gifts and Donations	716	760	-	(760)
Miscellaneous	477,408	710,868	977,972	267,104
Total Revenues	27,995,441	22,215,399	30,316,650	8,101,251
EXPENDITURES:				
Current:				
Instruction:				
Regular	16,461,812	15,635,313	15,635,318	(5)
Special	3,181,341	2,894,509	2,894,508	1
Vocational	316,367	359,073	359,073	-
Support Services:				
Pupils	1,314,309	1,418,807	1,418,807	-
Instructional Staff	1,705,678	1,506,128	1,506,128	-
Board of Education	50,469	49,822	49,822	-
Administration	2,185,213	2,117,237	2,117,239	(2)
Fiscal	3,267,219	3,003,100	2,204,321	798,779
Business	193,882	195,368	195,367	1
Operation and Maintenance of Plant	3,440,792	2,958,935	2,958,935	-
Pupil Transportation	1,457,411	1,325,051	1,325,051	-
Central	45,500	147,592	147,592	-
Extracurricular Activities	558,592	475,143	475,146	(3)
Total Expenditures	34,178,585	32,086,078	31,287,307	798,771
Excess of Revenues Over (Under) Expenditures	(6,183,144)	(9,870,679)	(970,657)	8,900,022
OTHER FINANCING SOURCES AND USES:				
Sale of Capital Assets	752	752	-	(752)
Refund of Prior Year Expenditures	1,449	1,449	7,098	5,649
Advances In	85,202	85,202	-	(85,202)
Transfers Out	(64,845)	(86,885)	(86,885)	-
Advances Out	-	(21,001)	(21,001)	-
Other Financing Sources	10,974	10,974	-	(10,974)
Total Other Financing Sources and Uses	33,532	(9,509)	(100,788)	(91,279)
Net Change in Fund Balances	(6,149,612)	(9,880,188)	(1,071,445)	8,808,743
Fund Balance at Beginning of Year	8,893,861	8,893,861	8,893,861	-
Prior Year Encumbrances Appropriated	986,327	986,327	986,327	-
Fund Balance at End of Year	$ 3,730,576	$ -	$ 8,808,743	$ 8,808,743

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities Internal Service Fund
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$ 782,074
Total Assets	782,074
LIABILITIES:	
Current Liabilities:	
Accrued Wages and Benefits	624
Intergovernmental Payable	1,495
Claims Payable	605,715
Total Liabilities	607,834
NET ASSETS:	
Unrestricted	174,240
Total Net Assets	**$ 174,240**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

		Governmental Activities Internal Service Fund
OPERATING REVENUES:		
Charges for Services	$	3,086,052
Total Operating Revenues		3,086,052
OPERATING EXPENSES:		
Salaries		14,019
Fringe Benefits		200,370
Purchased Services		3,365,202
Materials and Supplies		292
Other		388
Total Operating Expenses		3,580,271
Operating Loss		(494,219)
NON-OPERATING REVENUES (EXPENSES):		
Interest		36,345
Total Non-Operating Revenues (Expenses)		36,345
Net Change in Net Assets		(457,874)
Net Assets at Beginning of Year		632,114
Net Assets at End of Year	**$**	**174,240**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	$ 3,086,052
Cash Payments for Employee Services	(13,992)
Cash Payments for Employee Benefits	(199,894)
Cash Payments for Purchase Services	(3,308,395)
Cash Payments to Suppliers for Goods and Service	(292)
Cash Payments for Other Items	(388)
Net Cash Used by Operating Activities	(436,909)
Cash Flows from Investing Activities:	
Interest Received	36,345
Net Cash Provided by Investing Activities	36,345
Net Decrease in Cash and Cash Equivalents	(400,564)
Cash and Cash Equivalents at Beginning of Year	1,182,638
Cash and Cash Equivalents at End of Year	$ 782,074
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	$ (494,219)
Adjustments:	
Increase in Liabilities:	
Accrued Wages and Benefits	27
Intergovernmental Payable	476
Claims Payable	56,807
Net Cash Used by Operating Activities	**$ (436,909)**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private Purpose Trust	Agency Fund
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$ 2,763	$ 45,792
Total Assets	2,763	45,792
LIABILITIES:		
Current Liabilities:		
Undistributed Monies	-	45,792
Total Liabilities	-	45,792
NET ASSETS:		
Held in Trust for Scholarships	2,763	-
Total Net Assets	**$ 2,763**	**$ -**

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private Purpose Trust
ADDITIONS:	
Interest	$ 145
Total Additions	145
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	138
Total Deductions	138
Change in Net Assets	7
Net Assets Beginning of Year	2,756
Net Assets End of Year	**$ 2,763**

See Accompanying Notes to Basic Financial Statements

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The District was established in the 1870s through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships. The District is the 96th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 171 non-certificated employees and 307 certificated full-time teaching personnel who provide services to 4,233 students and other community members. The District currently operates 9 instructional buildings, one administrative building, and one garage.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Mount Vernon City School District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units. The following activities are included within the reporting entity:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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. Following are the more significant of the District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties fro goods or services. The District has no business-type activities.

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

Fund Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund is the District's only major governmental fund:

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

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

Proprietary Fund

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

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The Internal Service Fund is used to account for self-insurance programs.

Fiduciary Funds

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

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

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

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

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. Propriety and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined, and “available” means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to STAR Ohio. Investment earnings are allocated as authorized by State statute based upon District policy. Total investment earnings during fiscal year 2007 totaled $806,370, with $610,339 credited to the General Fund.

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

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2007. 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, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory

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

G. Capital Assets

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

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

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

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

H. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

I. Compensated Absences

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Assets

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District did not have net assets restricted by enabling legislation at June 30, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for property taxes, textbooks, and encumbrances.

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

M. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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

N. Estimates

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. No such transaction occurred during fiscal year 2007.

P. Operating Revenues and Expenses

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their usage change the normal understanding of the availability of the assets. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislature. Restricted assets include the amount required by State Statute to be set aside to create a reserve for Textbooks and Instructional Materials. See Note 15 for details.

3. BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of the budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other that agency funds are legally required to be budgeted and appropriated; however, only the General Fund and each Major Special Revenue Fund are required to be reported. The primary level of budgetary control is at the fund level. Budgetary modifications may only be made by resolution of the Board of Educations.

1. <u>Tax Budget</u>

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following year.

2. <u>Estimated Resources</u>

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County 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 the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimates resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2007.

3. <u>Appropriations</u>

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimates resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-items budgets. The Treasurer may allocate appropriations among departments within a fund. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reapportioned.

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

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

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

Net Change in Fund Balance
General Fund

	General
GAAP Basis	$(911,057)
Increase (Decrease) Due To:	
Net adjustment for revenue accruals	387,574
Net adjustment for expenditure accruals	384,100
Net adjustments for other financing sources (uses)	(13,903)
Encumbrances Outstanding at Year End (Budget Basis)	(918,159)
Budget Basis	$(1,071,445)

4. DEPOSITS AND INVESTMENTS

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

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

7. The State Treasurer’s investment pool (STAR Ohio); and

8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end of the fiscal year, the District had a bank balance of $4,811,024 and a carrying amount of $4,662,096. Of that balance, $200,000 was covered by Federal Deposit Insurance and $4,611,024 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

4. DEPOSITS AND INVESTMENTS (Continued)

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

Investments

As of June 30, 2007, the District had $10,395,256 invested in STAR Ohio.

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

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

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

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

Reconciliation of Cash and Investments to the Statement of Net Assets

Investment – STAR Ohio	$10,395,256
Carrying Amounts of Deposits	4,662,096
Fiduciary Fund Cash and Investments	(48,555)
Total Governmental Activities Equity in Pooled Cash	$15,008,797

5. 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 property, and tangible personal property (used in business) located in the District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in the calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, 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 semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

Public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible property is currently assessed at varying percentages of true value.

Tangible personal property tax revenue received in calendar year 2007 (other than public utility property tax) represents the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessed percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay either annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District received property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes personal property and public utility taxes, and the late June personal property settlement which are measurable as of June 30, 2007 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 and the late personal property tax settlement were levied to finance current fiscal year operations. The amount available as an advance at June 30, 2007 was $5,455,586 to the General Fund and $669,469 was available to the Other Governmental Funds.

5. PROPERTY TAXES (Continued)

On a full accrual basis, collectible delinquent property taxes and the amount available as an advance have been recorded as a receivable and revenue while the rest of the receivable is deferred. On a modified accrual basis, only the amount available as an advance is recognized as revenue.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	**Percent**	**Amount**	**Percent**
Agricultural/Residential and Other Real Estate	$462,314,530	83%	$472,266,410	86%
Public Utility	21,061,790	4%	21,179,740	4%
Tangible Personal Property	73,822,811	13%	56,703,473	10%
Total Assessed Value	$557,199,131	100.0	$550,149,623	100%
Tax rate per $1,000 of assessed valuation	$34.29		$34.24	

6. RECEIVABLES

Receivables at June 30, 2007, consisted of property taxes, accounts (rent and student fees), and intergovernmental monies. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities:	
Miscellaneous State	$44,505
Title VI-B	651,872
Title I	62,086
Title V	377
Title II-A	75,422
Miscellaneous Federal	2,645
Total Governmental Activities	$836,907

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Governmental Activities				
Nondepreciable Capital Assets				
Land	$ 230,664	$ -	$ -	$ 230,664
Construction in Progress	6,542,040	-	(6,542,040)	-
Total Nondepreciable Capital Assets	6,772,704	-	(6,542,040)	230,664
Depreciable Capital Assets				
Land Improvements	348,907	-	-	348,907
Buildings and Building Improvements	20,632,124	-	-	20,632,124
Furniture, Fixtures, and Equipment	6,837,296	6,952,399	(328,292)	13,461,403
Vehicles	1,177,300	-	-	1,177,300
Total Depreciable Capital Assets	28,995,627	6,952,399	(328,292)	35,619,734
Total Capital Assets	35,768,331	6,952,399	(6,870,332)	35,850,398
Less Accumulated Depreciation				
Land Improvements	(318,270)	(2,925)	-	(321,195)
Buildings and Building Improvements	(7,893,068)	(457,013)	-	(8,350,081)
Furniture, Fixtures, and Equipment	(5,054,878)	(510,655)	327,923	(5,237,610)
Vehicles	(987,379)	(64,552)	-	(1,051,931)
Total Accumulated Depreciation	(14,253,595)	(1,035,145)	327,923	(14,960,817)
Depreciable Capital Assets, Net	14,742,032	5,917,254	(369)	20,658,917
Governmental Activities Capital Assets, Net	$21,514,736	$5,917,254	$(6,542,409)	$20,889,581

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$423,627
Special	55,593
Vocational	58,733
Support Services:	
Instructional Staff	68,768
Administration	59,622
Fiscal	53,938
Operation and Maintenance of Plant	91,022
Pupil Transportation	92,204
Operations of Non-Instruction	66,308
Extracurricular	65,330
Total Depreciation Expense	$1,035,145

8. INTERFUND ASSETS/LIABILITIES

A. Interfund balances consisted of the following at June 30, 2007, as reported on the fund statements:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Fund	$36,900

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, 2007 are reported on the statement of net assets.

B. Interfund transfers for the fiscal year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

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

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

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the District's insurance coverage was as follows:

Type of Coverage	Deductible	Liability Limit
Building and Contents-replacement cost	$1,000	$76,185,783
Inland Marine Coverage	500	1,498,157
Automobile Liability		1,000,000
General Liability		
Per occurrence		1,000,000
Per year		2,000,000

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

9. RISK MANAGEMENT (Continued)

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of $605,715 reported in the Internal Service Fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2006	$529,659	$2,881,876	$(2,862,627)	$548,908
2007	$548,908	$3,365,202	$(3,308,395)	$605,715

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were $529,223, $560,702, and $529,918, respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were $2,358,660, $2,324,942, and $2,230,744, respectively; 84 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is $383,288.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB Plan or the Combined Plan are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available) the balance in the fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio has 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health insurance premium. The portion is based on years of service, Medicare eligibility, and retirement status.

11. POSTEMPLOYMENT BENEFITS – (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 of covered payroll, compared to 3.42 of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care at June 30, 2006, (the latest information available) were $158,751,207. At June 30, 2006, SERS has bet assets available for payments of health care benefits of $295.6 million. SERS has approximately 59,492 participants receiving health care benefits.

12. EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

13. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2007 were as follows:

	Balance at 07/01/06	Additions	Deductions	Balance at 06/30/07	Amount Due in One Year
General Obligation Bonds	$7,900,000	$ -	$ (395,000)	$7,505,000	$405,000
G. O. Bonds Accretion	35,753	26,461	-	62,214	-
Energy Conservation Loan	306,566	-	(70,253)	236,313	74,350
Long-Term Bonds & Loan	8,242,319	26,461	(465,253)	7,803,527	479,350
Capital Leases	326,846	-	(85,664)	241,182	91,629
Compensated Absences	1,249,526	1,294,074	(1,249,526)	1,294,074	101,137
Total Long-Term Obligations	$9,818,691	$1,320,535	$(1,800,443)	$9,338,783	$672,116

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

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

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

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

Fiscal year Ending June 30,	Principal	Interest	Total
2008	$ 479,350	$ 279,167	$ 758,517
2009	498,687	264,518	763,205
2010	553,276	248,216	801,492
2011	485,000	228,445	713,445
2012	510,000	211,095	721,095
2013-2017	2,842,214	1,111,359	3,953,573
2018-2022	2,435,000	179,125	2,614,125
Total	$7,803,527	$2,521,925	$10,325,452

Accretion

Capital accretion bonds were issued with the General Obligation Bonds – 2005. These bonds were purchased at a discount at the time of issuance. At maturity, all compound interest is paid to the bondholder. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The fiscal year 2007 amount of accretion is $62,214.

14. CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of $455,000. This amount represents the present value of the minimum lease payments at the time of acquisition and a corresponding liability was recorded. Principal payments in fiscal year 2007 totaled $85,664 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2007.

Fiscal Year Ending June 30,	**Amount**
2008	$105,108
2009	105,108
2010	52,554
Total	262,770
Less: Amount Representing Interest	(21,588)
Present Value of Net Minimum Lease Payments	$241,182

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

	Textbooks	**Capital Acquisition**
Set-aside Cash Balance as of June 30, 2006	$ (57,007)	$ (629,200)
Current Year Set-aside Requirement	589,937	589,937
Qualifying Disbursements	(530,770)	(220,768)
Qualifying Off-Sets	-	(904,639)
Total	$ 2,160	$(1,164,670)
Cash Balance Carried Forward to FY 2008	$ 2,160	$ (629,200)

During fiscal year 2000, the District issued $629,200 in energy conservation notes for various capital related improvements for District facilities. These proceeds may be used to reduce the capital acquisition reserve for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

16. JOINTLY GOVERNED ORGANIZATIONS

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

The District paid LACA $155,894 for services in fiscal year 2007. Financial information can be obtained from Sandy Mercer, who serves as Executive Director, at 195 Union Street, Suite C-2, Newark, Ohio 43055.

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

17. INSURANCE PURCHASING POOL

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

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

18. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately $58,208 per year. A portion of the tax refund may be recovered by additional State entitlement payments.

19. COMPLIANCE

The District did not allocate tax monies received contrary to Ohio Revised Code Section 5705.10.

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
Passed through the Ohio Department of Education:						
Food Donation	N/A	10.550	$ -	$ 71,511	$ -	$ 71,511
Child Nutrition Cluster:						
School Breakfast Program	06-PU-06,07	10.553	88,325	-	88,325	-
National School Lunch Program	LL-P4,P1-06,07	10.555	392,477	-	392,477	-
Special Milk Program for Children	02-PU-06,07	10.556	4,862	-	4,862	-
Summer Food Service	23,24-PU-06	10.559	19,470	-	19,470	-
Total Child Nutrition Cluster:			505,134	-	505,134	-
Total U.S. Department of Agriculture			505,134	71,511	505,134	71,511
U.S. DEPARTMENT OF EDUCATION						
Passed through the Ohio Department of Education:						
Special Education Cluster						
Special Education-Grants to States	6B-SF-06,07	84.027	838,081	-	786,798	-
Special Education-Preschool Grants	PG-S1-06,07	84.173	34,274	-	35,050	-
Total Special Education Cluster			872,355	-	821,848	-
Title I Grants to Local Educational Agencies	C1-S1-06,07	84.010	842,717	-	828,052	-
Safe and Drug Free Schools and Communities-State Grants	DR-S1-06,07	84.186	18,332	-	20,434	-
State Grants for Innovative Programs	C2-S1-06,07	84.298	7,515	-	8,305	-
Education Technology State Grants	TJ-S1-06,07	84.318	5,312	-	8,437	-
Comprehensive School Reform Demonstration	RF-S1-06,07	84.332	58,256	-	59,560	-
Improving Teacher Quality State Grants	TR-S1-06,07	84.367	216,803	-	206,683	-
Total U.S. Department of Education			2,021,290	-	1,953,319	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
Passed through the Ohio Department of Education:						
Learn & Serve America - School and Community Based Programs	SV-S1-06,07	94.004	1,977	-	4,250	-
Total Corporation for National and Community Service			1,977	-	4,250	-
TOTAL FEDERAL ASSISTANCE			$ 2,528,401	$ 71,511	$ 2,462,703	$ 71,511

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

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District) as of and for the fiscal year ended June 30, 2007 which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-001, 2007-002, and 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we consider items 2007-001, 2007-002, and 2007-003 to be material weaknesses.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated December 18, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is included in the accompanying Schedule of Findings as item 2007-001.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Wilson, Shannon & Snow, Inc.

Newark, Ohio
December 18, 2007

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

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

Compliance

We have audited the compliance of the Mount Vernon City School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each major federal program for the fiscal year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Mount Vernon City School District, Knox County, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying schedule of findings as items 2007-004 and 2007-005.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 2007-004 and 2007-005 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings to be material weaknesses.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated December 18, 2007.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on it.

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

Wilson, Shannon & Snow, Inc.

Newark, Ohio
December 18, 2007

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies \ 84.010, Nutrition Cluster\ 10.553, 10.555, 10.556 and 10.559
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

JUNE 30, 2007

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

Finding Number	2007-001

Ohio Revised Code Section 5705.10 (C) states that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. In addition, all revenue derived from sources other than general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

The District incorrectly posted to the General Fund (001) real estate tax monies in the amount of $383,378 instead of the Bond Retirement Fund (002).

Although the District has implemented controls to ensure proper posting of tax revenues received, we recommend the District continue to monitor and review postings throughout the fiscal year to determine that monies are recorded in the proper funds. This adjustment was made to the District's accounting system and also posted to the District's financial statements for fiscal year 2007.

Officials' Response:
The District has made the corrections to its accounting system and will review postings to ensure tax monies are posted to the correct funds.

Finding Number	2007-002

Capital Assets

The following conditions were noted during our testing of the District's capital assets:

- The District does have a formal capital asset policy that has been approved by the Board of Education. However, this policy has not been reviewed for several years to determine if the procedures to account for capital assets are still applicable. Not adhering to the established policy could allow for assets to be inadvertently omitted from the capital asset accounting system or allow for inconsistent treatment of assets. For example, the District only recorded as capital asset additions items recorded within the 640/740 object codes within the District's accounting system although capital assets were purchased from other 600/700 related object codes. We noted the District did not capitalize certain buses or improvements made to the District's buildings thus understating capital assets;
- The District had an independent appraisal performed; however, information provided was incomplete based on the District not providing a complete listing of capital asset additions;
- The District did not always assign tag numbers to assets, which could lead to problems in identifying the existence of capital assets and the ability to track assets if they are moved from one location to another;
- Audit adjustments agreed to by management were required to properly account for construction in process and depreciation expense.

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

Finding Number	2007-002 (Continued)

To help improve accountability over their capital asset accounting system:

- The District should review and update the current formal written capital asset policy. The policy should address items such as (this list is not all inclusive):
  - ► Developing procedures to capture capital assets as paid from all 600/700 object codes within the District's accounting system and identifying the various asset categories such capital assets will be included in, for example, buses should be consistently classified as vehicles;
  - ► Documenting the capital asset threshold for which assets will or will not be capitalized. The District currently uses $1,000 as the threshold for financial reporting purposes;
  - ► The procedures to address groups of assets that have a cost that exceeds the threshold in aggregate, but individually the cost is below the threshold. For example, the purchase of computers or other technology equipment;
  - ► How depreciation will be calculated (i.e. straight-line method);
  - ► The procedures for deleting assets, including appropriate administration approvals, identifying the matter of disposition (auction sale, donation, or destroyed), location of the disposed capital assets, and the function or activity in which the deleted capital asset was originally purchased.
  - ► The District should tag all capital assets to enable proper identification. This will help ensure the tracking of the assets and would be beneficial in determining the accuracy of the capital asset listing.

Officials' Response:
The District will develop and improve upon existing policies and procedures relating to capital assets.

Finding Number	2007-003

The compilation and presentation of the financial statements and the related footnotes is the responsibility of management. This responsibility remains intact if management decides to outsource this function for efficiency purposes or any other reason. It is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and notes prior to audit. It is also important to note that independent auditors are not part of the entity's internal control structure and should not be relied upon by management to detect misstatements.

As a result of our audit, we identified significant audit adjustments associated with reporting capital assets, accrued wages and benefits, net assets, tax revenues and receivables, and deferred revenues. We provided these adjustments to management who subsequently corrected the misstatements. These misstatements are an indicator that the District does not have sufficient internal control procedures in place related to financial reporting.

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

Finding Number	2007-003 (Continued)

We recommend the District develop and continue to monitor internal control procedures associated with the drafting and preparation of the financial statements and footnotes in order to enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes. In addition, while developing these procedures management should reduce its reliability on the District's auditors to perform this internal control procedures as auditors must remain independent.

Officials' Response:
The District will implement procedures to review and monitor the financial reporting process.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2007-004

CFDA Title and Number	Nutrition Cluster, #10.553, 10.555, 10.556 and 10.559
Federal Award Number/Year	044420-05PU-2006, 044420-05PU-2007, 044420-LLP4-2006, 044420-LLP4-2007, 044420-02PU-2006, 044420-02PU-2007, 044420-24PU-2006
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Eligibility – Nutrition Cluster – Noncompliance Finding

7 CFR 210.7 provides, in part, that the number of lunches and meal supplements is accurately reflected as served to eligible children. The District is required to implement internal control procedures to identify, review, and allow or disallow a child's application regarding eligibility for free and reduced lunches. The District is also required to accurately reflect eligibility status as well as changes in eligibility throughout the year after the initial application process enrolling the student upon verification finding results which would include transfers or changes in household income.

We identified two instances in which the District incorrectly assigned free or reduced lunch status to participating children which were inconsistent with their respective free or reduced lunch applications. On two separate applications, the District assigned reduced benefit status to participating children although based on testing these children should have been denied free or reduced lunch status. Based on this error, the District is considered improperly reimbursed for children identified as not meeting the reduced eligibility criteria which results in a calculated over reimbursement of $1,775. This over reimbursement was determined based on the differences between reduced lunch prices and Board of Education approved prices for children not meeting the free or reduced lunch criteria. Based on additional procedures performed, we determined that the errors described in this paragraph appear to be isolated noting no other unusual approved applications.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2007-004 (Continued)

We recommend the District implement procedures to ensure that free and reduced lunch classifications assigned and processed by the District agree to submitted applications. Furthermore, we recommend the District have an individual other than the Food Service Director either input or review the applications before final processing and submission to the Ohio Department of Education.

Officials' Response and Corrective Action Plan:
The District will implement procedures to ensure children properly meet free and reduced lunch status based on submitted applications.

Finding Number	2007-005

Statement of Position 98-03, Section 320(a) and OMB Circular A-133 requires that the audit must be completed and the single audit reporting package and *Data Collection Form for Reporting on Audits of States, Local Governments and Nonprofit Organizations* must be submitted by the grantee to the Federal Audit Clearinghouse (and pass-through entities that are affected by audit findings) within 30 days after the receipt of the auditor's reports or nine (9) months after the end of the audit period, whichever is earlier. A longer period can be agreed to in advance by the cognizant or oversight agency for audit. When extensions to the report submission due date are granted, the grantee must notify the Federal Audit Clearinghouse and each pass-through entity providing federal awards.

The fiscal year 2006 audit report was dated December 18, 2006 and released by the Auditor of State on March 13, 2007. However, in a letter dated October 2, 2007 from the Federal Audit Clearinghouse, the District did not file a copy of the audited financial statements along with the data collection form. Therefore, the 2006 audit could not be accepted as complete and processed by the Federal Audit Clearinghouse.

We recommend the District take the necessary corrective action to submit the required missing components with the Federal Audit Clearinghouse so that the 2006 audit can be accepted. Furthermore, the District should develop procedures to ensure that future audit submissions to the Federal Audit Clearinghouse are complete.

Officials' Response and Corrective Action Plan:
The District has submitted the 2006 Single Audit Reporting package to the Federal Audit Clearinghouse.

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 5, 2008

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