MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

SINGLE AUDIT

JULY 1, 2007 - JUNE 30, 2008

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, 2007 through June 30, 2008. 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

April 1, 2009

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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, each 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, 2008, 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio, as of June 30, 2008, 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.

As disclosed in Note 3A, the District implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures". In addition, as disclosed in Note 3B, the District changed in capitalization threshold for reporting capital assets. Finally, the District restated net assets to properly account for payment in lieu of taxes receivable and capital asset errors and omissions.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2009, on our consideration of the District's internal control over financial reporting and on 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.

Wilson, Shannon & Snow, Inc.
CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by the 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 Schedule of Federal Awards Receipts and Expenditures 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
February 25, 2009

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

This 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, 2008. 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 2008 are as follows:

- In total, net assets decreased $2,943,524, or 12%.
- General revenues accounted for $28,874,195, or 81% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for $6,726,156, or 19% of total revenues of $35,600,351.
- The District's major funds are the General Fund and the Bond Retirement Fund. The General Fund had $29,192,762 in revenues and other financing sources and $31,530,692 in expenditures and other financing uses. The General Fund's balance decreased $2,337,930 from the prior fiscal year.
- The Bond Retirement Fund had $932,792 in revenues and other financing sources and $785,432 in expenditures. The Bond Retirement Fund's balance increased $147,360 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 and the Bond Retirement Fund are the only major funds.

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 2008?" 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 and the Bond Retirement Fund are the District's major governmental funds.

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 2008. A comparative analysis of fiscal year 2008 to 2007 follows:

Table 1
Net Assets
Governmental Activities

	2008	(Restated) 2007
Assets:		
Current and Other Assets	$31,376,780	$33,170,722
Capital Assets, Net	13,803,772	14,397,952
Total Assets	45,180,552	47,568,674
Liabilities:		
Current and Other Liabilities	14,587,280	14,267,457
Long-Term Liabilities	9,574,362	9,338,783
Total Liabilities	24,161,642	23,606,240
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,674,912	6,415,457
Restricted	4,882,372	5,574,067
Unrestricted	10,461,626	11,972,910
Total	$21,018,910	$23,962,434

Total assets decreased $2,388,122 which was primarily attributed to the District changing its capitalization threshold for capital assets and also capital asset errors and omissions.

Total liabilities increased $555,402. There was an increase of $235,579 net reduction of long-term liabilities and an increase of $319,823 in current and other liabilities.

Table 2 reflects the changes in net assets for fiscal year 2008. A comparative analysis of fiscal year 2008 to 2007 follows:

Table 2
Change in Net Assets
Governmental Activities

	2008	(Restated) 2007
Revenues:		
Program Revenues:		
Charges for Services and Sales	$1,953,267	$1,997,689
Operating Grants and Contributions	4,772,889	4,326,093
Capital Grants and Contributions	-	25,338
Total Program Revenues	6,726,156	6,349,120
General Revenues:		
Property Taxes	12,392,178	14,242,076
Payments in Lieu of Taxes	795,330	1,355,678
Grants and Entitlements	15,003,758	13,567,670
Interest	630,559	842,570
Gifts and Donations	16,664	22,257
Sale of Capital Assets	140	-
Miscellaneous	35,566	986,337
Total General Revenues	28,874,195	31,016,588
Total Revenues	35,600,351	37,365,708
Expenses:		
Instruction	20,828,129	21,073,757
Support Services:		
Pupils	1,729,079	1,749,868
Instructional Staff	2,169,248	1,992,944
Board of Education	37,936	48,113
Administration	2,233,061	2,292,049
Fiscal	2,867,743	2,330,253
Business	214,919	216,686
Operation and Maintenance of Plant	4,399,730	2,747,992
Pupil Transportation	1,541,338	1,539,614
Central	147,095	147,592
Non-Instructional	1,408,377	2,255,116
Extracurricular Activities	641,929	674,953
Interest and Fiscal Charges	325,291	319,726
Total Expenses	38,543,875	37,388,663
Change in Net Assets	(2,943,524)	(22,955)
Net Assets Beginning of Year - Restated	23,962,434	23,985,389
Net Assets End of Year	$21,018,910	$23,962,434

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, 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 35 percent of revenues for governmental activities for the District in fiscal year 2008.

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.

Instruction comprises approximately 54 percent of governmental program expenses, and support services make up approximately 40 percent of the program expenses of the District.

Property tax revenue decreased $1,849,898. The decrease was attributed to an increase in delinquent taxes.

Governmental Activities

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

Table 3
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Instruction	$20,828,129	$15,899,536	$21,073,757	$16,287,819
Support Services:				
Pupils	1,729,079	1,622,975	1,749,868	1,651,388
Instructional Staff	2,169,248	2,165,878	1,992,944	1,925,734
Board of Education	37,936	37,936	48,113	48,113
Administration	2,233,061	2,233,061	2,292,049	2,292,049
Fiscal	2,867,743	2,853,943	2,330,253	2,317,073
Business	214,919	214,919	216,686	210,469
Operation and Maintenance of Plant	4,399,730	4,375,730	2,747,992	2,723,992
Pupil Transportation	1,541,338	1,495,878	1,539,614	1,495,901
Central	147,095	147,095	147,592	147,592
Non-Instructional	1,408,377	(73,740)	2,255,116	1,086,843
Extracurricular Activities	641,929	519,217	674,953	532,844
Interest and Fiscal Charges	325,291	325,291	319,726	319,726
Total Expenses	$38,543,875	$31,817,719	$37,388,663	$31,039,543

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 83 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 $35,960,212 and expenditures of $39,195,772. The net negative change of ($2,468,420) 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 2008, the District amended its General Fund budget as needed.

Final expenditures were budgeted at $34,222,860 while actual expenditures and other financing uses were $33,592,446. The $630,414 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 $31,456,664 did not change from original estimates. The net change in fund balance was ($1,662,248).

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the District had $13,803,772 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see Note 8 to the basic financial statements.

Debt

At June 30, 2008, the District had $7,188,675 for outstanding general obligation bonds to build the Mount Vernon Middle School. The District also had $928,963 in an outstanding Energy Construction loans. The bond and loans are being retired through the Bond Retirement Fund.

At June 30, 2008, the District's overall legal debt margin was $41,557,309, with an un-voted debt margin of $541,622.

For further information regarding the District's debt, see Note 14 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 budget, effective July 1, 2008. 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 2009 through 2012 of ($3,116,637), ($4,304,739), ($6,280,930), and ($8,868,243), respectively, with positive ending cash balances for fiscal years 2009 and 2010 of $6,176,739 and $1,872,000, 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 Barbara Donohue, Treasurer, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2008

		Governmental Activities
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	$	14,031,694
Materials and Supplies Inventory		22,902
Accounts Receivable		1,202
Intergovernmental Receivable		1,069,358
Taxes Receivable		14,457,402
Revenue in Lieu of Taxes Receivable		1,794,222
Non-Depreciable Capital Assets		230,664
Depreciable Capital Assets, net		13,573,108
Total Assets		45,180,552
LIABILITIES:		
Accounts Payable		404,078
Accrued Wages and Benefits		2,082,350
Intergovernmental Payable		722,320
Matured Compensated Absences Payable		52,940
Unearned Revenue		10,853,815
Claims Payable		471,777
Long-Term Liabilities:		
Due Within One Year		758,713
Due in More Than One Year		8,815,649
Total Liabilities		24,161,642
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		5,674,912
Restricted for Debt Service		2,215,288
Restricted for Capital Projects		2,021,204
Restricted for Other Purposes		645,880
Unrestricted		10,461,626
Total Net Assets	$	21,018,910

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues		Net(Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$ 16,160,375	$ 1,285,759	$ 339,657	$ (14,534,959)
Special	4,307,831	-	3,249,880	(1,057,951)
Vocational	358,379	-	53,297	(305,082)
Other	1,544	-	-	(1,544)
Support Services:				
Pupils	1,729,079	8,734	97,370	(1,622,975)
Instructional Staff	2,169,248	-	3,370	(2,165,878)
Board of Education	37,936	-	-	(37,936)
Administration	2,233,061	-	-	(2,233,061)
Fiscal	2,867,743	-	13,800	(2,853,943)
Business	214,919	-	-	(214,919)
Operation and Maintenance of Plant	4,399,730	-	24,000	(4,375,730)
Pupil Transportation	1,541,338	-	45,460	(1,495,878)
Central	147,095	-	-	(147,095)
Operation of Non-Instructional Services	1,408,377	536,062	946,055	73,740
Extracurricular Activities	641,929	122,712	-	(519,217)
Interest and Fiscal Charges	325,291	-	-	(325,291)
Total Governmental Activities	$ 38,543,875	$ 1,953,267	$ 4,772,889	(31,817,719)

General Revenues:	
Property Taxes Levied for:	
General Purposes	10,536,482
Capital Projects	783,030
Debt Service	1,072,666
Payments in Lieu of Taxes	795,330
Grants and Entitlements not Restricted to Specific Programs	15,003,758
Gifts and Donations	16,664
Investment Earnings	630,559
Miscellaneous	35,566
Sale of Capital Assets	140
Total General Revenues	28,874,195
Change in Net Assets	(2,943,524)
Net Assets Beginning of Year - Restated	23,962,434
Net Assets End of Year	$ 21,018,910

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	GENERAL FUND	BOND RETIREMENT FUND	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	$ 8,777,778	$ 2,012,180	$ 1,766,651	$ 12,556,609
Materials and Supplies Inventory	-	-	22,902	22,902
Accounts Receivable	1,174	-	28	1,202
Interfund Receivable	22,126	-	-	22,126
Intergovernmental Receivable	-	-	1,069,358	1,069,358
Taxes Receivable	12,762,121	826,373	868,908	14,457,402
Revenue in Lieu of Taxes Receivable	1,794,222	-	-	1,794,222
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	83,455	-	-	83,455
Total Assets	$ 23,440,876	$ 2,838,553	$ 3,727,847	$ 30,007,276
LIABILITIES:				
Current Liabilities:				
Accounts Payable	$ 212,847	$ -	$ 191,231	$ 404,078
Accrued Wages and Benefits	1,921,516	-	160,180	2,081,696
Interfund Payable	-	-	22,126	22,126
Intergovernmental Payable	673,475	-	47,861	721,336
Matured Compensated Absences Payable	47,276	-	5,664	52,940
Deferred Revenue	11,267,952	628,326	910,256	12,806,534
Total Liabilities	14,123,066	628,326	1,337,318	16,088,710
EQUITY:				
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	583,730	-	170,717	754,447
Reserved for Property Taxes	3,288,391	198,047	229,258	3,715,696
Reserved for Textbooks and Instructional Materials	83,455	-	-	83,455
Unreserved, Undesignated, Reported in:				
General Fund	5,362,234	-	-	5,362,234
Special Revenue Funds	-	-	248,425	248,425
Debt Service Funds	-	2,012,180	-	2,012,180
Capital Projects Funds	-	-	1,742,129	1,742,129
Total Fund Balances	9,317,810	2,210,227	2,390,529	13,918,566
Total Liabilities and Fund Balances	$ 23,440,876	$ 2,838,553	$ 3,727,847	$ 30,007,276

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
RECONCILIATION OF THE GOVERNMENT FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Governmental Fund Balances		$ 13,918,566
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.		13,803,772
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes Receivable	97,177	
Intergovernmental Receivable	270,606	
Revenue in Lieu of Taxes Receivable	1,584,936	
		1,952,719
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.		918,215
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds and Energy Conservation Loans Payable	(8,117,638)	
Compensated Absences Payable	(1,307,171)	
Capital Leases Payable	(149,553)	
		(9,574,362)
Net Assets of Governmental Activities		$ 21,018,910

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	GENERAL FUND	BOND RETIREMENT FUND	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property and Other Local Taxes	$ 10,977,233	$ 692,349	$ 786,573	$ 12,456,155
Intergovernmental	16,006,375	153,558	4,171,315	20,331,248
Interest	414,751	-	186,489	601,240
Tuition and Fees	1,188,336	-	86,556	1,274,892
Rent	5,569	-	-	5,569
Extracurricular Activities	-	-	136,744	136,744
Gifts and Donations	-	-	16,664	16,664
Customer Sales and Services	-	-	536,062	536,062
Payments in Lieu of Taxes	566,072	-	-	566,072
Miscellaneous	34,386	-	1,180	35,566
Total Revenues	29,192,722	845,907	5,921,583	35,960,212
EXPENDITURES:				
Current:				
Instruction:				
Regular	15,841,950	-	655,959	16,497,909
Special	2,596,293	-	1,686,694	4,282,987
Vocational	305,072	-	-	305,072
Other	-	-	1,544	1,544
Support Services:				
Pupils	1,427,815	-	340,668	1,768,483
Instructional Staff	1,591,319	-	552,729	2,144,048
Board of Education	38,206	-	-	38,206
Administration	2,152,743	-	68,967	2,221,710
Fiscal	2,793,772	20,731	37,673	2,852,176
Business	222,482	-	879	223,361
Operation and Maintenance of Plant	2,506,247	-	58,113	2,564,360
Pupil Transportation	1,234,993	-	251,521	1,486,514
Central	147,095	-	-	147,095
Operation of Non-Instructional Services	-	-	1,398,627	1,398,627
Extracurricular Activities	480,712	-	124,118	604,830
Capital Outlay	-	-	1,789,041	1,789,041
Debt Service:				
Principal	91,629	479,350	-	570,979
Interest	13,479	285,351	-	298,830
Total Expenditures	31,443,807	785,432	6,966,533	39,195,772
Excess of Revenues Over (Under) Expenditures	(2,251,085)	60,475	(1,044,950)	(3,235,560)
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	86,885	-	86,885
Energy Conservation Loan Issued	-	-	767,000	767,000
Sale of Capital Assets	40	-	100	140
Transfers Out	(86,885)	-	-	(86,885)
Total Other Financing Sources and Uses	(86,845)	86,885	767,100	767,140
Net Change in Fund Balances	(2,337,930)	147,360	(277,850)	(2,468,420)
Fund Balance at Beginning of Year	11,655,740	2,062,867	2,668,379	16,386,986
Fund Balance at End of Year	$ 9,317,810	$ 2,210,227	$ 2,390,529	$ 13,918,566

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
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, 2008

Net Change in Fund Balances - Total Governmental Funds		$ (2,468,420)
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.		
Capital Outlay - Depreciable Capital Assets	68,270	
Depreciation	(655,040)	
		(586,770)
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, disposals, trade-ins and donations) is to decrease net assets.		(7,410)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:		
Intergovernmental	(554,601)	
Property Taxes	(63,977)	
Payment in Lieu of Taxes (Net of Restatement)	229,258	
		(389,320)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		570,979
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest is accrued, regardless of when it is due. The additional interest is reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on capital appreciation bonds.		(26,461)
Proceeds from Energy Conservation Loan		(767,000)
Internal service fund is not included in governmental fund financial statements.		743,975
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	(13,097)	
		(13,097)
Change in Net Assets of Governmental Activities		$ (2,943,524)

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property and Other Local Taxes	$ 12,945,932	$ 12,945,932	$ 13,144,428	$ 198,496
Payment in Lieu of Taxes	557,524	557,524	566,072	8,548
Intergovernmental	15,764,660	15,764,660	16,006,375	241,715
Interest	408,488	408,488	414,751	6,263
Tuition and Fees	1,170,391	1,170,391	1,188,336	17,945
Rent	5,485	5,485	5,569	84
Miscellaneous	31,418	31,418	31,900	482
Total Revenues	30,883,898	30,883,898	31,357,431	473,533
EXPENDITURES:				
Current:				
Instruction:				
Regular	16,678,990	16,678,990	16,365,865	313,125
Special	2,922,863	2,922,863	2,867,990	54,873
Vocational	339,325	339,325	332,955	6,370
Support Services:				
Pupils	1,488,804	1,488,804	1,460,854	27,950
Instructional Staff	1,752,099	1,752,099	1,719,206	32,893
Board of Education	40,676	40,676	39,912	764
Administration	2,248,345	2,248,345	2,206,135	42,210
Fiscal	2,850,728	2,850,728	2,797,210	53,518
Business	227,024	227,024	222,762	4,262
Operation and Maintenance of Plant	2,939,660	2,939,660	2,884,472	55,188
Pupil Transportation	1,443,555	1,443,555	1,416,454	27,101
Central	149,909	149,909	147,095	2,814
Extracurricular Activities	497,816	497,816	488,470	9,346
Total Expenditures	33,579,794	33,579,794	32,949,380	630,414
Excess of Revenues Over (Under) Expenditures	(2,695,896)	(2,695,896)	(1,591,949)	1,103,947
OTHER FINANCING SOURCES AND USES:				
Sale of Capital Assets	40	40	40	-
Refund of Prior Year Expenditures	1,772	1,772	1,772	-
Advances In	570,955	570,955	570,955	-
Transfers Out	(86,885)	(86,885)	(86,885)	-
Advances Out	(556,181)	(556,181)	(556,181)	-
Total Other Financing Sources and Uses	(70,299)	(70,299)	(70,299)	-
Net Change in Fund Balances	(2,766,195)	(2,766,195)	(1,662,248)	1,103,947
Fund Balance at Beginning of Year	8,808,743	8,808,743	8,808,743	-
Prior Year Encumbrances Appropriated	918,159	918,159	918,159	-
Fund Balance at End of Year	$ 6,960,707	$ 6,960,707	$ 8,064,654	$ 1,103,947

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

		Governmental Activities Internal Service Fund
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$	1,391,630
Total Assets		1,391,630
LIABILITIES:		
Current Liabilities:		
Accrued Wages and Benefits		654
Intergovernmental Payable		984
Claims Payable		471,777
Total Liabilities		473,415
NET ASSETS:		
Unrestricted		918,215
Total Net Assets	$	918,215

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Governmental Activities Internal Service Fund
OPERATING REVENUES:		
Charges for Services	$	3,682,834
Total Operating Revenues		3,682,834
OPERATING EXPENSES:		
Salaries		14,366
Fringe Benefits		206,259
Purchased Services		2,745,341
Materials and Supplies		1,763
Other		449
Total Operating Expenses		2,968,178
Operating Income		714,656
NON-OPERATING REVENUES (EXPENSES):		
Interest		29,319
Net Change in Net Assets		743,975
Net Assets at Beginning of Year		174,240
Net Assets at End of Year	$	918,215

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Governmental Activities Internal Service Fund
lncrease in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from Charges for Services	$	3,682,834
Cash Payments for Employee Services		(14,336)
Cash Payments for Employee Benefits		(206,770)
Cash Payments for Purchase Services		(2,879,279)
Cash Payments to Suppliers for Goods and Service		(1,763)
Cash Payments for Other		(449)
Net Cash Provided by Operating Activities		580,237
Cash Flows from Investing Activities:		
Interest Received		29,319
Net Cash Provided by Investing Activities		29,319
Net Increase in Cash and Cash Equivalents		609,556
Cash and Cash Equivalents at Beginning of Year		782,074
Cash and Cash Equivalents at End of Year	$	1,391,630
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$	714,656
Adjustments		
Increase (Decrease) in Liabilities:		
Accrued Wages and Benefits		30
Intergovernmental Payable		(511)
Claims Payable		(133,938)
Net Cash Provided by Operating Activities	$	580,237

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	Private Purpose Trust	Agency Fund
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	$ 2,836	$ 41,917
Total Assets	2,836	41,917
LIABILITIES:		
Current Liabilities:		
Undistributed Monies	-	41,917
Total Liabilities	-	$ 41,917
NET ASSETS:		
Held in Trust for Scholarships	2,836	-
Total Net Assets	$ 2,836	$ -

See Accompanying Notes to Basic Financial Statements

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
STATEMENT IN CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

		Private Purpose Trust
ADDITIONS:		
Interest	$	111
DEDUCTIONS:		
Payments in Accordance with Trust Agreements		38
Change in Net Assets		73
Net Assets Beginning of Year		2,763
Net Assets End of Year	$	2,836

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 187 non-certificated employees and 306 certificated full-time teaching personnel who provide services to 4,107 students and other community members. The District currently operates 9 instructional buildings, one administrative building, and one garage.

Reporting Entity:

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

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

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

The District is associated with 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 17 and 18 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 and Bond Retirement Fund are the District's only major governmental funds:

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

Bond Retirement Fund – This fund receives property tax, intergovernmental and transfers-in from the General Fund to retire outstanding principal and interest obligations.

The other governmental funds of the District account for grants and other resources 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, revenue in lieu of taxes, grants, investment earnings, tuition, and student fees.

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 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 2008, 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 2008 totaled $630,670, with $414,751 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 2008. 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, 2008.

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 five 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. Unspent House Bill 264 borrowings of $49,656 do not reduce invested in capital assets, net of related debt. 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. Net assets restricted for other purposes include resources for music and athletic programs, and state and federal grants restricted to expenditures for specified purposes.

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, 2008.

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 instructional materials, 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 2008.

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 16 for details.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Changes in Accounting Principle

For 2008, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and the STRS post-employment healthcare plans, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

B. Restatement of Net Assets

During 2008, the District changed its capitalization threshold for reporting capital assets from $1,000 to $5,000 and also restated capital assets for errors and omissions. The District also determined that receivables related to the District's Tax Increment Financing Agreement were previously not recognized by the District. This adjustment had the following effect on net assets as previously reported at June 30, 2007.

	Governmental Activities
Governmental Activities Net Assets as Previously Reported	$29,098,385
Capital Assets	(6,491,629)
Payment in Lieu of Taxes Receivable	1,355,678
Adjusted Governmental Activities Net Assets, June 30, 2007	$23,962,434

4. 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. Tax Budget

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. Estimated Resources

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 2008.

3. Appropriations

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.

4. 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 reappropriated.

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	($2,337,930)
Increase (Decrease) Due To:	
Net adjustment for revenue accruals	2,164,724
Net adjustment for expenditure accruals	(709,008)
Net adjustments for other financing sources (uses)	16,546
Encumbrances Outstanding at Year End (Budget Basis)	(796,580)
Budget Basis	($1,662,248)

5. 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.

5. 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 $5,579,575 and a carrying amount of $4,976,400. Of that balance, $200,000 was covered by Federal Deposit Insurance and $5,379,575 was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

5. 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, 2008, the District had $9,100,047 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	$9,100,047
Carrying Amounts of Deposits	4,976,400
Fiduciary Funds Cash and Investments	(44,753)
Total Governmental Activities Equity in Pooled Cash	$14,031,694

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility property, and tangible personal property (used in business) located in the District. Real property tax revenues received in calendar year 2008 represent the collection of calendar year 2007 taxes. Real property taxes received in the calendar year 2008 were levied after April 1, 2007, on the assessed values as of January 1, 2007, 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 2008 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien on December 31, 2006, were levied after April 1, 2007, and are collected in 2008 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 2008 (other than public utility property tax) represents the collection of calendar year 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. 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 2008 is 12.5 percent. This will be reduced to 6.25 percent for 2009 and zero for 2010. 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, 2008, are available to finance fiscal year 2008 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, 2008 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, 2008 was $3,288,391 to the General Fund, $198,047 to the Bond Retirement Fund, and $229,258 was available to the Other Governmental Funds.

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.

6. PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2008 taxes were collected are:

	2007 Second-Half Collections		2008 First-Half Collections	
	Amount	**Percent**	**Amount**	**Percent**
Agricultural/Residential and Other Real Estate	$472,266,410	86%	$466,539,710	86%
Public Utility	21,179,740	4%	18,331,290	3%
Tangible Personal Property	56,703,473	10%	56,751,041	11%
Total Assessed Value	$550,149,623	100%	$541,622,041	100%
Tax rate per $1,000 of assessed valuation	$34.24		$33.83	

7. RECEIVABLES

A. Intergovernmental Receivables

Receivables at June 30, 2008, 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:	
Other Governmental Funds:	
Lunchroom	$8,791
Title VI-B	918,662
Title I	128,027
Title V	3,491
Drug Free Schools	400
ESCE	4,328
Miscellaneous Federal	5,659
Total Governmental Activities	$1,069,358

B. Payment in Lieu of Taxes

The District has entered into various Tax Increment Financing Agreements with local companies for the purpose of various improvements and developments. To encourage these improvements, the companies were granted an exemption from paying property taxes on the improvements and developments; however, payments in lieu of taxes are made to the District in an amount equal to the property taxes that otherwise would have been due in the current year. These payments are being used to finance District operations and will continue through fiscal year 2025.

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	(Restated) Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08
Governmental Activities				
Nondepreciable Capital Assets				
Land	$ 230,664	$ -	$ -	$ 230,664
Total Nondepreciable Capital Assets	230,664	-	-	230,664
Depreciable Capital Assets				
Land Improvements	348,907	-	-	348,907
Buildings and Building Improvements	20,632,124	25,857	-	20,657,981
Furniture, Fixtures, and Equipment	1,768,848	31,838	(22,500)	1,778,186
Vehicles	1,664,752	10,575	-	1,675,327
Total Depreciable Capital Assets	24,414,631	68,270	(22,500)	24,460,401
Total Capital Assets	24,645,295	68,270	(22,500)	24,691,065
Less Accumulated Depreciation				
Land Improvements	(321,195)	(2,925)	-	(324,120)
Buildings and Building Improvements	(8,350,081)	(457,013)	-	(8,807,094)
Furniture, Fixtures, and Equipment	(993,426)	(88,527)	15,090	(1,066,863)
Vehicles	(582,641)	(106,575)	-	(689,216)
Total Accumulated Depreciation	(10,247,343)	(655,040)	15,090	(10,887,293)
Depreciable Capital Assets, Net	14,167,288	(586,770)	(7,410)	13,573,108
Governmental Activities Capital Assets, Net	$14,397,952	($586,770)	($7,410)	$13,803,772

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$94,311
Special	56,059
Vocational	60,454
Support Services:	
Instructional Staff	61,878
Administration	60,614
Fiscal	55,773
Operation and Maintenance of Plant	92,966
Pupil Transportation	93,377
Operations of Non-Instruction	14,120
Extracurricular	65,488
Total Depreciation Expense	$655,040

9. INTERFUND ACTIVITY

A. Interfund balances consisted of the following at June 30, 2008, as reported on the fund statements:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Fund	$22,126

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, 2008 are reported on the statement of net assets.

B. Interfund transfers for the fiscal year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Bond Retirement 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 debt service.

10. 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 2008, 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.

10. RISK MANAGEMENT (Continued)

For fiscal year 2008, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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 $471,777 reported in the Internal Service Fund at June 30, 2008 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
2007	$548,908	$3,365,202	($3,308,395)	$605,715
2008	$605,715	$2,745,341	($2,879,279)	$471,777

11. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org, under Forms and Publications.

11. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were $600,494, $529,223, and $560,702, respectively; which is equal to the required contributions for each year.

B. State Teachers Retirement System

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

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

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

11. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were $2,365,540, $2,358,660, and $2,324,942, respectively, 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. The unpaid contribution for fiscal year 2008 is $400,836.

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, 2008, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $35,800.

12. POSTEMPLOYMENT BENEFITS (CONTINUED)

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $179,290, $158,011, and $167,410, respectively; which are equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were $28,309, $24,949, and $26,433, respectively; which are equal to the required contributions for each year.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $168,967, $168,476, and $166,067, respectively, 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

13. 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.

13. EMPLOYEE BENEFITS (CONTINUED)

B. Life Insurance

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

14. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2008 were as follows:

	Balance at 07/01/07	Additions	Deductions	Balance at 06/30/08	Amount Due in One Year
General Obligation Bonds	$7,505,000	$ -	($ 405,000)	$7,100,000	$420,000
G. O. Bonds Accretion	62,214	26,461	-	88,675	-
Energy Conservation Loan	-	767,000	-	767,000	71,695
Energy Conservation Loan	236,313	-	(74,350)	161,963	78,687
Long-Term Bonds & Loan	7,803,527	793,461	(479,350)	8,117,638	570,382
Capital Leases	241,182	-	(91,629)	149,553	98,008
Compensated Absences	1,294,074	1,307,171	(1,294,074)	1,307,171	90,323
Total Long-Term Obligations	$9,338,783	$2,100,632	($1,865,053)	$9,574,362	$758,713

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 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 Fund.

Energy Conservation Loan - In February 2008, the District issued $767,000 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 2.75%. The loan will be retired from the Bond Retirement 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.

14. LONG-TERM OBLIGATIONS (CONTINUED)

Principal and interest requirements to retire general obligation debt, including notes and accretion outstanding at June 30, 2008, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2009	$570,382	$285,122	$855,504
2010	626,956	266,835	893,791
2011	560,720	245,025	805,745
2012	587,779	225,616	813,395
2013	649,971	206,939	856,910
2014-2018	3,416,830	1,069,503	4,486,333
2019-2023	1,705,000	80,025	1,785,025
Total	$8,117,638	$2,379,065	$10,496,703

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 2008 amount of accretion is $88,675.

15. 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 2008 totaled $91,629 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, 2008.

Fiscal Year Ending June 30,	Amount
2009	$105,108
2010	52,554
Total	$157,662
Less: Amount Representing Interest	(8,109)
Present Value of Net Minimum Lease Payments	$149,553

16. 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, 2007	$2,160	($629,200)
Current Year Set-aside Requirement	602,080	602,080
Qualifying Disbursements	(136,606)	(1,542,820)
Qualifying Off-Sets	(384,179)	(353,126)
Total	$83,455	($1,923,066)
Cash Balance Carried Forward to FY 2009	$83,455	($1,396,200)

During fiscal year 2000 and 2008, the District issued $629,200 and $767,000, respectively, 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 until the loan is retired by the District. The negative amount is therefore presented as being carried forward to the next fiscal year.

17. 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 $151,960 for services in fiscal year 2008. 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.

18. 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.

18. INSURANCE PURCHASING POOL (CONTINUED)

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.

19. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

B. Litigation

The District is currently party to several legal proceedings and is unable to determine the impact on the District at this time.

20. ACCOUNTABILITY AND COMPLIANCE

A. Fund Deficit

Fund balances at June 30, 2008 included the following individual fund deficits:

Nonmajor Governmental Funds	Deficit
Supplemental Equipment	$ 3,600
Poverty Aid	8,269
Miscellaneous State Grants	90
Title I	293
Drug Free Schools	247
Title II-A	26,599

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

20. ACCOUNTABILITY AND COMPLIANCE (CONTINUED)

B. Legal Compliance

The following fund had expenditures plus encumbrances in excess of appropriations contrary to section 5705.41(B), Revised Code:

	Excess
Nonmajor Special Revenue Funds:	
Vocational Educational Enhancement	$3,600
Poverty Aid	23,298
Miscellaneous State Grants	10,761
Special Education IDA Part B	138,185
Title I	8,038
Drug Free Schools	400
Special Education Preschool	4,796
Miscellaneous Federal Grants	5,866
Lunchroom	5,181

The District also had several funds which had negative cash balances throughout and at June 30, 2008 contrary to section 5705.10, Revised Code.

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR ***Pass Through Grantor*** Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through Ohio Department of Education					
Food Donation	10.550	$ -	$ 86,298	$ -	$ 86,298
Child Nutrition Cluster:					
School Breakfast Program	10.553	128,433	-	128,433	-
National School Lunch Program	10.555	559,040	-	559,040	-
Special Milk Program for Children	10.556	7,858	-	7,858	-
Summer Food Service Program for Children	10.559	24,177	-	24,177	-
Total Child Nutrition Cluster		719,508	-	719,508	-
Total U.S. Department of Agriculture		719,508	86,298	719,508	86,298
U.S. DEPARTMENT OF EDUCATION					
Passed Through Ohio Department of Education					
Title I Grants to Local Educational Agencies	84.010	826,184	-	853,922	-
Special Education Cluster:					
Special Education - Grants to States	84.027	883,879	-	1,411,691	-
Special Education - Preschool Grants	84.173	29,444	-	33,622	-
Total Special Education Cluster		913,323	-	1,445,313	-
Safe and Drug Free Schools and Communities State Grants	84.186	17,993	-	18,393	-
State Grants for Innovative Programs	84.298	2,836	-	2,504	-
Education Technology State Grants	84.318	5,762	-	8,538	-
Improving Teacher Quality State Grants	84.367	321,487	-	317,602	-
Total U.S. Department of Education		2,087,585	-	2,646,272	-
Total Federal Awards Receipts and Expenditures		$ 2,807,093	$ 86,298	$ 3,365,780	$ 86,298

The accompanying notes 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, 2008

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.

NOTE C – FOOD DISTRIBUTION

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.

The District uses the services of DJ Co-ops to hold, process, and deliver its federal commodities at a nominal rate.

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, each 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, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2009. We noted the District restated net assets, changed its capitalization threshold for reporting capital assets, and implemented GASB Statements No's. 45, 48, and 50, as disclosed in Note 3. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

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 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 the applicable accounting basis such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting: 2008-001 through 2008-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
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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 internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiencies described above are not material weaknesses.

In addition, we noted certain internal control matters that we reported to the District's management in a separate letter dated February 25, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items 2008-001 through 2008-002.

In addition, we noted certain noncompliance and other matters that we reported to District's management in a separate letter dated February 25, 2009.

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

We intend this report solely 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
February 25, 2009

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 apply to each of its major federal programs for the fiscal year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the District's major federal programs. The District's management is responsible for complying with laws, regulations, contracts, and grants applicable to each of its major federal programs. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Mount Vernon City School District, Knox County, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the fiscal year ended June 30, 2008. However, in a separate letter to the District's management dated February 25, 2009, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control over Compliance

The District's management 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 directly and materially affect 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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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material compliance with a federal program's compliance requirements.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated February 25, 2009.

We intend this report solely for the information and use of management, Board of Education, the 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
February 25, 2009

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 §.505

JUNE 30, 2008

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)?**	No
(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 its major federal program?**	No
(d)(1)(iv)	**Were there any other significant deficiencies in its internal control for its major federal program?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education – Grants to States/ CFDA #84.027 and Special Education – Preschool Grants/ CFDA #84.173, Title II-A – Improving Teacher Quality/CFDA #84.367, Nutrition Cluster: School Breakfast Program/CFDA #10.553, National School Lunch Program/CFDA #10.555, Special Milk Program for Children/CFDA #10.556, Summer Food Service Program for Children/CFDA #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?**	No

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 §.505

JUNE 30, 2008

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

Finding Number	2008-001

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures. It was noted during the audit that the District maintained negative cash fund balances for the following months during and at the end of the fiscal year:

SEPTEMBER 2007:

Fund	Fund Number	Noncompliance
Title I	572	($8,336)
Title II-A	590	(20,449)

DECEMBER 2007:

Fund	Fund Number	Noncompliance
Title II-A	590	(3,055)

MARCH 2008:

Fund	Fund Number	Noncompliance
Special Education IDEA Part B	516	(53,302)
Title I	572	(82,224)
Special Education Preschool	587	(1,947)
Title II-A	590	(43,127)

JUNE 2008:

Fund	Fund Number	Noncompliance
Special Education IDEA Part B	516	(469,904)
Title I	572	(10,240)
Drug Free Schools	584	(400)
Special Education Preschool	587	(4,177)
Misc. Federal Grants	599	(4,376)

By having negative fund balances, the District funds have spent other funds' balances. The cause of this could be due to not monitoring appropriations and related expenditures or continual review of cash management. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the District properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the District should advance or transfer funds from the General Fund with proper Board of Education approval. We recommend the District utilize its accounting software program to its fullest and continually review relevant reports to assist in not having funds with negative fund balances.

Officials' Response: The District will monitor fund balances throughout the year to determine compliance with the Ohio Revised Code.

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

Finding Number	2008-002

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend monies unless it has been properly appropriated. The following funds had expenditures exceeding appropriations at June 30, 2008:

Non-Major Funds	Expenditures	Appropriations	Excess
Vocational Educational Enhancement	$4,000	$400	($3,600)
Poverty Aid	95,249	71,951	(23,298)
Miscellaneous State Grants	54,791	44,030	(10,761)
Special Education IDEA Part B	1,966,773	1,828,588	(138,185)
Title I	872,869	864,831	(8,038)
Drug Free Schools	18,793	18,393	(400)
Special Education Preschool	38,069	33,273	(4,796)
Miscellaneous Federal Grants	14,515	8,649	(5,866)
Lunchroom	1,348,135	1,342,954	(5,181)

We recommend that the District appropriate all expenditures to ensure that expenditures do not exceed appropriations throughout and at the end of the fiscal year. This will help avoid possible fund deficits.

Officials' Response: The District will monitor appropriations and expenditures throughout the year to determine compliance with the Ohio Revised Code.

Finding Number	2008-003

Financial Reporting Process

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 and cash and cash equivalents. 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.

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.

Officials' Response: The District plans to evaluate its financial reporting process in the near future.

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 §.505

JUNE 30, 2008

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

Finding Number	2008-004

Capital Assets

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

- The District had an independent appraisal performed in prior years and has maintained listings of capital assets on computerized spreadsheets for additional changes, however, the District has not performed a District-wide evaluation to determine if assets reported are still in use and the location of where the asset may be currently located;
- 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;
- The District should routinely reconcile the amounts reported within the financial statements to underlying capital asset records to ensure the amounts reported are complete and accurate. For example, audit adjustments were necessary to properly report vehicles owned by the District at July 1, 2007 as previously reported;
- The District's depreciable capital assets appeared to be significantly depreciated at June 30, 2008 although such assets may still be in operation. For example, Land Improvements were 93% depreciated and Furniture, Fixtures and Equipment were 60% depreciated. This indicates that estimated useful lives assigned for such assets may not be reasonable based on actual capital asset life expectancy.

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 and record all capital outlay expenditures within 600/700 object codes which will aide in compiling capital asset additions throughout the year;
  - 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) and the assignment of reasonable estimated useful lives based on actual life expectancy;
  - 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 is currently evaluating the internal control processes in place and will be developing a capital asset policy to identify, track, and record District capital assets.

3. FINDINGS FOR FEDERAL AWARDS

None.

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
OMB CIRCULAR A-133 §.505

JUNE 30, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; **Explain**:
2007-001	Ohio Revised Code Section 5705.10(C) states that revenue from a special levy must be credited to that specific fund.	Yes	N/A
2007-002	Capital Assets	No	Re-issued as Finding 2008-004.
2007-003	Financial Reporting	No	Re-issued as Finding 2008-003.
2007-004	Eligibility – Nutrition Cluster	Partially	Reported in the management letter.
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 must be submitted by the grantee to the Federal Audit Clearinghouse 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.	Yes	N/A

Mary Taylor, CPA
Auditor of State

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 14, 2009