

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2011**

BARB DONOHUE, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Mount Vernon City School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 6, 2012

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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountants' Report

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

To the Board of Education:

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, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Mount Vernon City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mount Vernon City School 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the 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 described in Note 3, during the fiscal year ended June 30, 2011, the Mount Vernon City School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Additionally, the Mount Vernon City School District restated its net assets as a result of an appraisal performed for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2011, on our consideration of the Mount Vernon City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Independent Accountants' Report
Mount Vernon City School District
Page Two

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Mount Vernon City School District's basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and provides additional analysis and is not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
December 26, 2011

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Mount Vernon City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- The District restated net assets at June 30, 2010 as described in Note 3.C to the basic financial statements. In total, net assets of governmental activities decreased \$2,430,489 which represents a 10.67% decrease from fiscal year 2010.
- General revenues accounted for \$28,697,783 in revenue or 75.18% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,476,693 or 24.82% of total revenues of \$38,174,476.
- The District had \$40,604,965 in expenses related to governmental activities; \$9,476,693 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$28,697,783 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The District restated fund balances at June 30, 2010 as described in Note 3.B to the basic financial statements. The general fund had \$30,111,815 in revenues and other financing sources and \$32,120,242 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased \$2,008,427 from \$6,219,124 to \$4,210,697.
- The bond retirement fund had \$594,497 in revenues and other financing sources and \$814,742 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$220,245 from \$2,391,214 to \$2,170,969.

Using these Basic Financial Statements

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-56 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010. The net assets of the District were restated at June 30, 2010 as described in Note 3.C to the basic financial statements.

	Governmental Activities <u>2011</u>	Restated Governmental Activities <u>2010</u>
<u>Assets</u>		
Current and other assets	\$ 22,658,839	\$ 24,809,947
Capital assets, net	<u>19,117,044</u>	<u>19,761,638</u>
Total assets	<u>41,775,883</u>	<u>44,571,585</u>
<u>Liabilities</u>		
Current liabilities	13,314,158	13,074,594
Long-term liabilities	<u>8,104,248</u>	<u>8,709,025</u>
Total liabilities	<u>21,418,406</u>	<u>21,783,619</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,799,774	12,894,650
Restricted	4,788,219	5,004,801
Unrestricted	<u>2,769,484</u>	<u>4,888,515</u>
Total net assets	<u>\$ 20,357,477</u>	<u>\$ 22,787,966</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$20,357,477. Of this total, \$2,769,484 is unrestricted in use. Current and other assets decreased \$2,151,108 from the prior year primarily due to a decrease in cash and cash equivalents approximately \$2.5 million that were used in fiscal year 2011 operations.

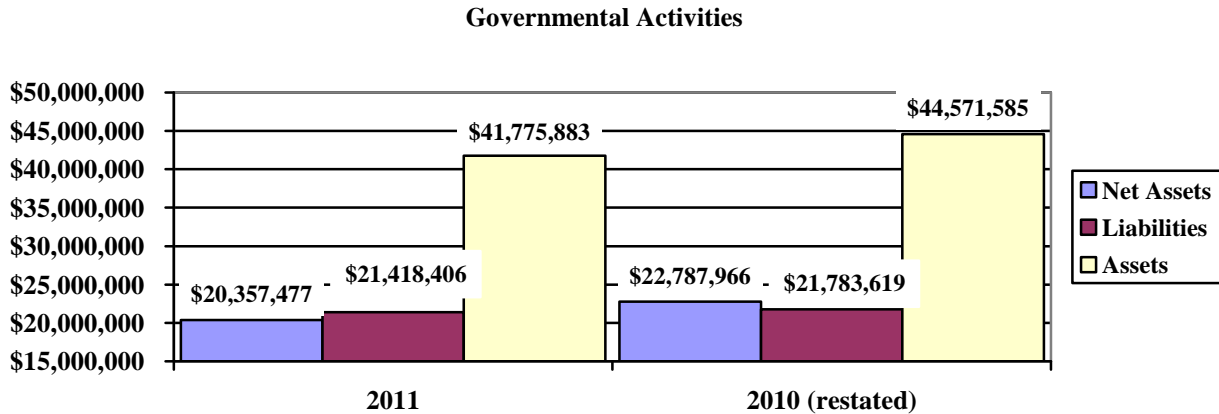
**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

At fiscal year-end, capital assets represented 45.76% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$12,799,774. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$4,788,219, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,769,484 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the District's assets, liabilities and net assets at June 30, 2011 and June 30, 2010. The net assets of the District were restated at June 30, 2010 as described in Note 3.C to the basic financial statements.



The table below shows the changes in net assets for governmental activities for fiscal years 2011 and 2010. The net assets of the District were restated at June 30, 2010 as described in Note 3.C to the basic financial statements.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,245,589	\$ 2,149,752
Operating grants and contributions	7,231,104	5,480,666
General revenues:		
Property taxes	13,715,065	13,603,211
Payments in lieu of taxes	446,485	540,091
Grants and entitlements	14,470,862	15,632,694
Investment earnings	18,119	25,221
Other	47,252	29,918
Total revenues	38,174,476	37,461,553

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 17,725,465	\$ 18,050,238
Special	4,183,137	4,127,136
Vocational	432,382	422,375
Support services:		
Pupil	1,979,147	2,253,804
Instructional staff	2,554,399	2,351,342
Board of education	66,534	69,338
Administration	2,901,696	2,600,858
Fiscal	2,787,060	2,548,377
Business	158,181	68,404
Operations and maintenance	3,335,470	3,075,714
Pupil transportation	1,643,308	1,247,815
Central	150,954	143,599
Operation of non-instructional services:		
Other non-instructional services	232,191	154,022
Food service operations	1,409,521	1,333,902
Extracurricular activities	756,141	732,917
Interest and fiscal charges	289,379	307,884
Total expenses	<u>40,604,965</u>	<u>39,487,725</u>
Change in net assets	(2,430,489)	(2,026,172)
Net assets at beginning of year (restated)	<u>22,787,966</u>	<u>24,814,138</u>
Net assets at end of year	<u>\$ 20,357,477</u>	<u>\$ 22,787,966</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$2,430,489. Total governmental expenses of \$40,604,965 were offset by program revenues of \$9,476,693 and general revenues of \$28,697,783. Program revenues supported 23.34% of the total governmental expenses.

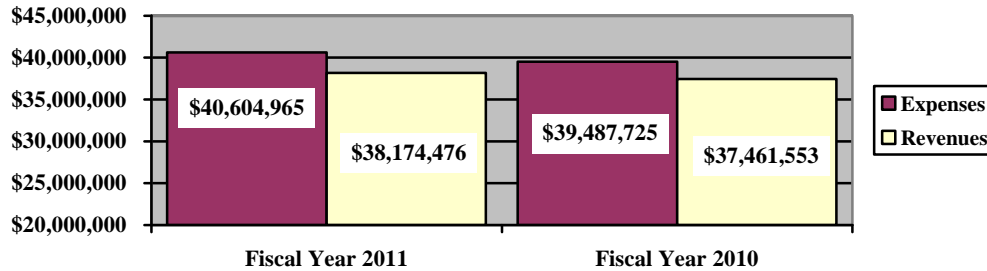
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 73.83% of total governmental revenue. The increase in operating grants and contributions and the corresponding decrease in general revenues is attributable to \$1,246,041 received during fiscal year 2011 related to the PPathway to Student Success program, which is administered through the Ohio Department of Education. This money is reported as an operating grant and contribution revenue in fiscal year 2011 as opposed to a general revenue in fiscal year 2010. The increase in operating grants and contributions is also due to federal monies available during fiscal year 2011 related to the Education Jobs program.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$22,340,984 or 55.02% of total governmental expenses for fiscal year 2011. The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program expenses				
Instruction:				
Regular	\$ 17,725,465	\$ 15,898,679	\$ 18,050,238	\$ 16,001,243
Special	4,183,137	983,823	4,127,136	2,571,702
Vocational	432,382	380,658	422,375	371,036
Support services:				
Pupil	1,979,147	1,264,418	2,253,804	1,429,504
Instructional staff	2,554,399	1,816,390	2,351,342	1,767,465
Board of education	66,534	66,534	69,338	69,338
Administration	2,901,696	2,651,694	2,600,858	2,304,464
Fiscal	2,787,060	2,773,542	2,548,377	2,443,736
Business	158,181	155,484	68,404	68,404
Operations and maintenance	3,335,470	2,561,359	3,075,714	2,692,760
Pupil transportation	1,643,308	1,470,694	1,247,815	1,115,106
Central	150,954	120,231	143,599	143,559
Operation of non-instructional services:				
Other non-instructional services	232,191	8,358	154,022	(30,757)
Food service operations	1,409,521	67,109	1,333,902	4,901
Extracurricular activities	756,141	619,920	732,917	596,962
Interest and fiscal charges	289,379	289,379	307,884	307,884
Total expenses	<u>\$ 40,604,965</u>	<u>\$ 31,128,272</u>	<u>\$ 39,487,725</u>	<u>\$ 31,857,307</u>

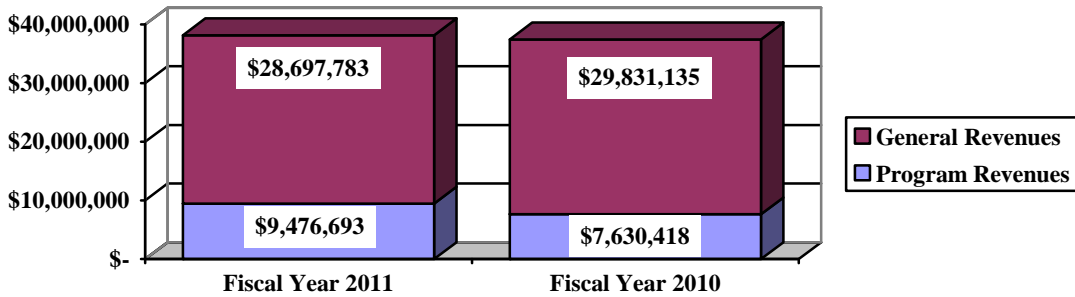
**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The dependence upon tax and other general revenues for governmental activities is apparent, 77.27% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 76.66%. The District's taxpayers and grants and entitlements received from the State of Ohio that are not restricted in use are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$8,042,832, which is less than last year's total restated balance of \$10,288,720 (as described in Note 3.B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and June 30, 2010.

	<u>Fund Balance</u> <u>June 30, 2011</u>	<u>Restated</u> <u>Fund Balance</u> <u>June 30, 2010</u>	<u>Decrease</u>	<u>Percentage</u> <u>Change</u>
General	\$ 4,210,697	\$ 6,219,124	\$ (2,008,427)	(32.29) %
Bond Retirement	2,170,969	2,391,214	(220,245)	(9.21) %
Other Governmental	<u>1,661,166</u>	<u>1,678,382</u>	<u>(17,216)</u>	(1.03) %
Total	<u>\$ 8,042,832</u>	<u>\$ 10,288,720</u>	<u>\$ (2,245,888)</u>	(21.83) %

General Fund

The District's general fund balance decreased \$2,008,427 during fiscal year 2011. Consistent with prior year, revenues were not sufficient to cover expenditures in the general fund by approximately \$2 million.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 12,550,198	\$ 12,423,464	\$ 126,734	1.02 %
Tuition and fees	1,477,210	1,289,859	187,351	14.52 %
Earnings on investments	14,845	19,080	(4,235)	(22.20) %
Intergovernmental	15,409,826	15,339,464	70,362	0.46 %
Payments in lieu of taxes	446,185	538,545	(92,360)	(17.15) %
Other revenues	<u>190,928</u>	<u>249,287</u>	<u>(58,359)</u>	<u>(23.41) %</u>
Total	<u>\$ 30,089,192</u>	<u>\$ 29,859,699</u>	<u>\$ 229,493</u>	<u>0.77 %</u>
<u>Expenditures</u>				
Instruction	\$ 19,830,141	\$ 20,033,834	\$ (203,693)	(1.02) %
Support services	11,607,503	11,300,452	307,051	2.72 %
Extracurricular activities	554,969	529,529	25,440	4.80 %
Capital outlay	22,623	-	22,623	100.00 %
Debt service	<u>15,414</u>	<u>63,841</u>	<u>(48,427)</u>	<u>(75.86) %</u>
Total	<u>\$ 32,030,650</u>	<u>\$ 31,927,656</u>	<u>\$ 102,994</u>	<u>0.32 %</u>

Revenues of the general fund increased \$229,493 or 0.77%. The most significant increase was in the area of tuition and fees, which increased \$187,351 or 14.52%. This increase is mainly attributable to increases in both special education and open enrollment receipts during fiscal year 2011. Payments in lieu of taxes decreased \$92,360 or 17.15% primarily due to fewer tax abatement payments made available to the District by local entities. All other revenue remained comparable to fiscal year 2010.

Expenditures of the general fund increased \$102,994 or 0.32%. The most significant increase was in the area of support services, which minimally increased \$307,051 or 2.72%. Capital outlay expenditures increased \$22,623 or 100.00% due to a capital lease transaction entered into by the District during fiscal year 2011. Debt service expenditures decreased \$48,427 or 75.86% mainly due to the retirement of a major capital lease obligation during fiscal year 2010.

Bond Retirement Fund

The bond retirement fund had \$594,497 in revenues and other financing sources and \$814,742 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$220,245 from \$2,391,214 to \$2,170,969 as revenues are not sufficient to cover expenditures in the fund. This is consistent with fiscal year 2010.

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 2011, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$32,170,084 and final budgeted revenues and other financing sources were \$29,810,678. Actual revenues and other financing sources for fiscal year 2011 were \$29,993,648. This represents a \$182,970 increase from final budgeted amounts.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$33,715,322, which were 376,378 more than final budgeted amounts. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$31,994,929, which was \$1,344,015 less than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

The District restated capital assets at June 30, 2010 to reflect a capital asset appraisal completed by the District during fiscal year 2011 (see Note 3.C and Note 9 for details). At the end of fiscal year 2011, the District had \$19,117,044 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2011 balances compared to June 30, 2010 balances:

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

	Governmental Activities	
	2011	Restated 2010
Land	\$ 411,195	\$ 411,195
Land improvements	629,900	694,808
Building and improvements	16,617,127	17,171,778
Furniture, fixtures and equipment	902,222	1,014,298
Vehicles	556,600	469,559
Total	\$ 19,117,044	\$ 19,761,638

The overall decrease in capital assets of \$644,594 is due to depreciation expense of \$955,293 exceeding capital outlays of \$310,699 in the fiscal year.

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

Debt Administration

At June 30, 2011, the District had \$5,470,000 in series 2005 current interest bonds, \$255,000 in capital appreciation bonds, \$209,810 in accreted interest, \$545,905 in energy conservation loans and \$46,365 in capital lease obligations. Of this total, \$601,351 is due within one year and \$5,925,729 is due in more than one year.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following table summarizes the bonds, loans and capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Refunding bonds - series 2005		
Current interest bonds	\$ 5,470,000	\$ 5,955,000
Capital appreciation bonds	255,000	255,000
Accreted interest	209,810	167,518
Energy conservation loan - 2008	545,905	621,625
Capital leases	<u>46,365</u>	<u>35,363</u>
Total	<u>\$ 6,527,080</u>	<u>\$ 7,034,506</u>

At June 30, 2011, the District's overall legal debt margin was \$45,225,743 and an unvoted debt margin of \$541,997.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District continues to receive support from the residents. The District passed an emergency levy in May 2009, which will bring in \$1,625,000 over the proceeding five years. The District has two more emergency levies to pass in the next couple of years. Considering the current economic situation, the forecast does not assume any growth in real estate taxes. The State has subsidized 6% of its funding to the District with federal dollars, which will only last for a short time. After the loss of federal dollars, the State will have to come up with the 6% or the District will lose approximately \$800,000 per year. The District is considering levy options because the levies are not sufficient with the decrease in State funding.

The enrollment of the District has increased in recent years, but because of the gain cap in the State Biennial Budget (HB1), the District will receive no additional dollars for the students. How the legislature plans to fund education programs during a weakened economy remains a concern. The current five year forecast for the District projects a deficit cash balance for fiscal years 2012, 2013 and 2014. The District has made cuts and will continue to look at ways to reduce spending. The District must continue to maintain financial planning and prudent fiscal management.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Barbara J. Donohue/Judy Stahl-Reynolds, Treasurer, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 8,242,141
Receivables:	
Taxes	13,465,867
Accounts	32,796
Intergovernmental	548,439
Payments in lieu of taxes	348,760
Prepayments	2,252
Materials and supplies inventory.	18,584
Capital assets:	
Land	411,195
Depreciable capital assets, net.	18,705,849
Capital assets, net	19,117,044
 Total assets.	 41,775,883
 Liabilities:	
Accounts payable.	113,543
Accrued wages and benefits	3,510,058
Pension obligation payable.	707,807
Intergovernmental payable	130,724
Accrued interest payable	18,834
Unearned revenue	8,243,347
Claims payable.	589,845
Long-term liabilities:	
Due within one year.	931,040
Due in more than one year.	7,173,208
 Total liabilities	 21,418,406
 Net Assets:	
Invested in capital assets, net of related debt.	12,799,774
Restricted for:	
Capital projects	1,612,811
Debt service.	2,154,927
State funded programs.	20,377
Federally funded programs	57,835
Student activities	54,412
Other purposes	887,857
Unrestricted	2,769,484
 Total net assets	 \$ 20,357,477

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 17,725,465	\$ 1,469,612	\$ 357,174	\$ (15,898,679)
Special	4,183,137	113,181	3,086,133	(983,823)
Vocational	432,382	-	51,724	(380,658)
Support services:				
Pupil	1,979,147	20,824	693,905	(1,264,418)
Instructional staff	2,554,399	-	738,009	(1,816,390)
Board of education	66,534	-	-	(66,534)
Administration	2,901,696	-	250,002	(2,651,694)
Fiscal	2,787,060	-	13,518	(2,773,542)
Business	158,181	-	2,697	(155,484)
Operations and maintenance	3,335,470	21,507	752,604	(2,561,359)
Pupil transportation	1,643,308	2,817	169,797	(1,470,694)
Central	150,954	-	30,723	(120,231)
Operation of non-instructional services:				
Other non-instructional services	232,191	-	223,833	(8,358)
Food service operations	1,409,521	485,172	857,240	(67,109)
Extracurricular activities	756,141	132,476	3,745	(619,920)
Interest and fiscal charges	289,379	-	-	(289,379)
Total	\$ 40,604,965	\$ 2,245,589	\$ 7,231,104	(31,128,272)
General revenues:				
Property taxes levied for:				
General purposes				12,560,700
Debt service				337,525
Capital projects				816,840
Payments in lieu of taxes				446,485
Grants and entitlements not restricted to specific programs				14,470,862
Investment earnings				18,119
Miscellaneous				47,252
Total general revenues				28,697,783
Change in net assets				(2,430,489)
Net assets at beginning of year (restated).				22,787,966
Net assets at end of year				\$ 20,357,477

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 2,207,406	\$ 2,037,696	\$ 1,702,220	\$ 5,947,322
Receivables:				
Taxes.	12,273,413	414,537	777,917	13,465,867
Accounts	32,713	-	83	32,796
Intergovernmental.	-	-	548,439	548,439
Interfund loans	269,605	-	-	269,605
Loans to other funds.	1,279	-	-	1,279
Payments in lieu of taxes	348,760	-	-	348,760
Prepayments.	2,252	-	-	2,252
Materials and supplies inventory.	-	-	18,584	18,584
Restricted assets:				
Equity in pooled cash and cash equivalents	879,471	-	-	879,471
Total assets	<u>\$ 16,014,899</u>	<u>\$ 2,452,233</u>	<u>\$ 3,047,243</u>	<u>\$ 21,514,375</u>
Liabilities:				
Accounts payable	\$ 54,344	\$ -	\$ 59,199	\$ 113,543
Accrued wages and benefits.	3,168,771	-	341,287	3,510,058
Compensated absences payable	213,785	-	24,385	238,170
Pension obligation payable	645,292	-	62,515	707,807
Intergovernmental payable	115,219	-	15,505	130,724
Interfund loans payable.	-	-	269,605	269,605
Loans from other funds	-	-	1,279	1,279
Deferred revenue	89,566	2,792	164,652	257,010
Unearned revenue.	7,517,225	278,472	447,650	8,243,347
Total liabilities.	<u>11,804,202</u>	<u>281,264</u>	<u>1,386,077</u>	<u>13,471,543</u>
Fund Balances:				
Nonspendable:				
Long-term loans.	1,279	-	-	1,279
Prepayments.	2,252	-	-	2,252
Materials and supplies inventory.	-	-	18,584	18,584
Restricted:				
Debt service	-	2,170,969	-	2,170,969
Capital improvements	-	-	1,607,705	1,607,705
Food service operations	-	-	47,539	47,539
Non-public schools	-	-	20,287	20,287
Extracurricular.	-	-	54,412	54,412
Textbooks/instructional supplies.	879,471	-	-	879,471
Other purposes.	-	-	6,235	6,235
Committed:				
Capital improvements	-	-	134,744	134,744
Other purposes.	-	-	6,147	6,147
Assigned:				
Student instruction	28,192	-	-	28,192
Student and staff support.	218,508	-	-	218,508
School supplies.	59,311	-	-	59,311
Extracurricular.	4,583	-	-	4,583
Unassigned (deficit)	3,017,101	-	(234,487)	2,782,614
Total fund balances	<u>4,210,697</u>	<u>2,170,969</u>	<u>1,661,166</u>	<u>8,042,832</u>
Total liabilities and fund balances	<u>\$ 16,014,899</u>	<u>\$ 2,452,233</u>	<u>\$ 3,047,243</u>	<u>\$ 21,514,375</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	8,042,832
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			19,117,044
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds			
Taxes receivable	\$	97,962	
Intergovernmental receivable		158,748	
Payments in lieu of taxes receivable		300	
Total		257,010	257,010
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			825,503
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(18,834)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		(1,338,998)	
Capital lease obligations payable		(46,365)	
Energy conservation loan payable		(545,905)	
General obligation bonds payable		(5,934,810)	
Total		(7,866,078)	(7,866,078)
Net assets of governmental activities		\$	20,357,477

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes	\$ 12,550,198	\$ 336,445	\$ 816,073	\$ 13,702,716
Tuition.	1,474,771	-	-	1,474,771
Transportation fees.	2,439	-	-	2,439
Charges for services	-	-	485,172	485,172
Earnings on investments	14,845	-	259	15,104
Extracurricular.	23,115	-	138,560	161,675
Classroom materials and fees	99,054	-	-	99,054
Rental income	21,507	-	-	21,507
Contributions and donations	16,004	-	4,342	20,346
Other local revenues	31,248	-	971	32,219
Payments in lieu of taxes	446,185	-	-	446,185
Intergovernmental - state	15,409,826	168,460	1,151,846	16,730,132
Intergovernmental - federal	-	-	4,963,230	4,963,230
Total revenues	<u>30,089,192</u>	<u>504,905</u>	<u>7,560,453</u>	<u>38,154,550</u>
Expenditures:				
Current:				
Instruction:				
Regular.	17,134,062	-	422,261	17,556,323
Special	2,332,237	-	1,782,751	4,114,988
Vocational	363,842	-	-	363,842
Support services:				
Pupil	1,359,537	-	610,124	1,969,661
Instructional staff	1,466,977	-	1,017,920	2,484,897
Board of education	66,534	-	-	66,534
Administration	2,554,900	-	248,347	2,803,247
Fiscal	2,680,447	8,997	34,673	2,724,117
Business.	63,915	-	2,691	66,606
Operations and maintenance	2,199,234	-	750,949	2,950,183
Pupil transportation	1,117,076	-	406,621	1,523,697
Central	98,883	-	30,654	129,537
Operation of non-instructional services:				
Other non-instructional services	-	-	242,565	242,565
Food service operations.	-	-	1,355,505	1,355,505
Extracurricular activities	554,969	-	130,660	685,629
Facilities acquisition and construction.	-	-	541,948	541,948
Capital outlay	22,623	-	-	22,623
Debt service:				
Principal retirement.	11,621	560,720	-	572,341
Interest and fiscal charges	3,793	245,025	-	248,818
Total expenditures	<u>32,030,650</u>	<u>814,742</u>	<u>7,577,669</u>	<u>40,423,061</u>
Excess of expenditures over revenues	(1,941,458)	(309,837)	(17,216)	(2,268,511)
Other financing sources (uses):				
Transfers in.	-	89,592	-	89,592
Transfers (out)	(89,592)	-	-	(89,592)
Capital lease transaction	22,623	-	-	22,623
Total other financing sources (uses)	<u>(66,969)</u>	<u>89,592</u>	<u>-</u>	<u>22,623</u>
Net change in fund balances	(2,008,427)	(220,245)	(17,216)	(2,245,888)
Fund balances at beginning of year (restated).	6,219,124	2,391,214	1,678,382	10,288,720
Fund balances at end of year.	\$ 4,210,697	\$ 2,170,969	\$ 1,661,166	\$ 8,042,832

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ (2,245,888)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Capital asset additions	\$	310,699	
Current year depreciation		(955,293)	
Total			(644,594)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable		1,731	
Accretion of interest on "capital appreciation" bonds		(42,292)	
Total			(40,561)

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

Taxes		12,349	
Earnings on investments		(1,745)	
Payments in lieu of taxes		300	
Intergovernmental		4,003	
Total			14,907

Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(22,623)

Repayment of bond, loan and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:

Current interest bonds		485,000	
Energy conservation loan		75,720	
Capital leases		11,621	
Total			572,341

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.

176,912

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(240,983)

Change in net assets of governmental activities \$ (2,430,489)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 14,387,717	\$ 12,521,104	\$ 12,598,054	\$ 76,950
Tuition	1,323,378	1,451,447	1,460,367	8,920
Transportation fees	1,699	2,975	2,993	18
Earnings on investments	50,454	15,657	15,753	96
Rental income	15,213	21,376	21,507	131
Contributions and donations	793	10,087	10,149	62
Other local revenues	483,464	80,361	16,983	(63,378)
Payments in lieu of taxes	83,876	347,519	413,527	66,008
Intergovernmental - state	15,818,490	15,321,908	15,416,071	94,163
Total revenues	<u>32,165,084</u>	<u>29,772,434</u>	<u>29,955,404</u>	<u>182,970</u>
Expenditures:				
Current:				
Instruction:				
Regular	16,932,811	16,825,206	16,616,808	208,398
Special	2,585,234	2,354,494	2,326,055	28,439
Vocational	357,040	366,788	364,237	2,551
Support services:				
Pupil	1,494,172	1,345,527	1,332,971	12,556
Instructional staff	1,775,841	1,595,319	1,494,506	100,813
Board of education	101,782	98,100	67,109	30,991
Administration	2,764,877	2,751,882	2,552,021	199,861
Fiscal	2,572,540	2,749,722	2,661,293	88,429
Business	74,539	62,974	62,001	973
Operations and maintenance	3,120,005	2,930,174	2,302,639	627,535
Pupil transportation	1,236,537	1,211,000	1,170,397	40,603
Central	137,211	98,884	98,883	1
Extracurricular activities	562,733	543,324	540,459	2,865
Total expenditures	<u>33,715,322</u>	<u>32,933,394</u>	<u>31,589,379</u>	<u>1,344,015</u>
Excess of expenditures over revenues	<u>(1,550,238)</u>	<u>(3,160,960)</u>	<u>(1,633,975)</u>	<u>1,526,985</u>
Other financing sources (uses):				
Refund of prior year's expenditures	5,000	2,344	2,344	-
Transfers (out)	-	(135,945)	(135,945)	-
Advances in	-	35,700	35,700	-
Advances (out)	-	(269,605)	(269,605)	-
Sale of assets	-	200	200	-
Total other financing sources (uses)	<u>5,000</u>	<u>(367,306)</u>	<u>(367,306)</u>	<u>-</u>
Net change in fund balance	(1,545,238)	(3,528,266)	(2,001,281)	1,526,985
Fund balance at beginning of year	4,304,644	4,304,644	4,304,644	-
Prior year encumbrances appropriated	419,015	419,015	419,015	-
Fund balance at end of year	<u>\$ 3,178,421</u>	<u>\$ 1,195,393</u>	<u>\$ 2,722,378</u>	<u>\$ 1,526,985</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,415,348
Total assets	<u>1,415,348</u>
Liabilities:	
Current liabilities:	
Claims payable	<u>589,845</u>
Total liabilities	<u>589,845</u>
Net assets:	
Unrestricted.	<u>825,503</u>
Total net assets	<u><u>\$ 825,503</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 3,911,176
Total operating revenues	<u>3,911,176</u>
Operating expenses:	
Fringe benefits	347,213
Claims	3,776,031
Materials and supplies	<u>33,934</u>
Total operating expenses	<u>4,157,178</u>
Operating loss	<u>(246,002)</u>
Nonoperating revenues:	
Interest revenue	<u>5,019</u>
Total nonoperating revenues	<u>5,019</u>
Change in net assets	(240,983)
Net assets at beginning of year	<u>1,066,486</u>
Net assets at end of year	<u><u>\$ 825,503</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 3,911,278
Cash payments for employee benefits	(347,213)
Cash payments for claims	(3,658,578)
Cash payments for materials and supplies	<u>(33,934)</u>
Net cash used in operating activities	<u>(128,447)</u>
Cash flows from investing activities:	
Interest received	<u>5,164</u>
Net cash provided by investing activities	<u>5,164</u>
Net decrease in cash and cash equivalents	(123,283)
Cash and cash equivalents at beginning of year . . .	<u>1,538,631</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,415,348</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (246,002)
Changes in assets and liabilities:	
Decrease in accounts receivable.	102
Increase in claims payable	<u>117,453</u>
Net cash used in operating activities.	<u><u>\$ (128,447)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,792	\$ 45,679
Total assets	2,792	\$ 45,679
Liabilities:		
Accounts payable	-	\$ 3,634
Intergovernmental payable	-	4
Due to students	-	42,041
Total liabilities	-	\$ 45,679
Net assets:		
Held in trust for scholarships	2,792	
Total net assets	\$ 2,792	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 7
Total additions.	7
Change in net assets.	7
Net assets at beginning of year	2,785
Net assets at end of year.	\$ 2,792

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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 1870's 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 918 school districts) in terms of enrollment. It is staffed by 165 non-certified employees and 300 certified full-time teaching personnel who provide services to 3,968 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following organizations are described due to their relationship to the District:

Parochial Schools

Within the District boundaries, St. Vincent De Paul Elementary is operated through the Columbus Catholic Diocese; Christian Star Academy Elementary is operated as a private school; and 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.

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 \$152,974 for services in fiscal year 2011. 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.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan'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 Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 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 following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - This fund receives property tax, intergovernmental and transfers-in from the general fund to retire outstanding principal and interest obligations.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. Proprietary funds are classified as enterprise or internal service; 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 District's only internal service fund is used to account for self-insurance programs.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has one agency fund. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes fringe benefits, claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of 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 appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Knox County Budget Commission for rate determination.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Estimated Resources:

By March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2011. 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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$14,845, which includes \$7,470 assigned from other District funds.

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

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold is \$5,000 for general capital assets. 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 except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 30 years
Buildings and building improvements	15 - 30 years
Furniture and fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	5 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds.” These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net assets date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, certified employees age forty or greater with at least fifteen years of service, classified/administrative employees age fifty or greater with at least ten years of service, classified/administrative employees age forty-five or greater with at least fifteen years of service and classified/administrative employees of any age with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences 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. Bonds, loans and capital leases are recognized on the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Prepayments

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

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks/instructional supplies. See Note 18 for details.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

O. 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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service operations, special trust and rotary services. The amount also includes amounts restricted by State statute for textbooks/instructional supplies.

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

P. Estimates

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

Q. Interfund Activity

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

Interfund activity between governmental funds is eliminated in the statement of activities.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 6,155,306	\$ 2,391,214	\$ 1,742,200	\$ 10,288,720
Fund reclassifications:				
Uniform school supplies fund	46,122	-	(46,122)	-
Public school support fund	17,696	-	(17,696)	-
Total fund reclassifications	<u>63,818</u>	<u>-</u>	<u>(63,818)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 6,219,124</u>	<u>\$ 2,391,214</u>	<u>\$ 1,678,382</u>	<u>\$ 10,288,720</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Restatement of Net Assets

The District's net assets have been restated to reflect the effects of an appraisal performed for the District's capital assets. The restatement of capital asset and accumulated depreciation balances to match the appraisal report had the following effect on net assets as previously reported by the governmental activities:

	<u>Governmental Activities</u>
Net assets, June 30, 2010	\$ 16,189,811
Adjustment due to capital asset appraisal	<u>6,598,155</u>
Restated net assets, July 1, 2010	<u>\$ 22,787,966</u>

See Note 9 for the effect of the change on capital asset and accumulated depreciation balances as previously reported by the District at June 30, 2010.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Public school preschool	\$ 840
Education jobs	12,117
Title VI-B	46,531
Title I	128,712
IDEA preschool	2,305
Improving teacher quality	42,750
Miscellaneous federal grants	1,232

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances are a result of adjustments for accrued liabilities and the reporting of short-term interfund loans as a fund liability rather than as an other financing source.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the District had \$200 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$4,547,702. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$4,119,707 of the District’s bank balance of \$4,619,707 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2011, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 3,742,710	\$ 3,742,710
Total	<u>\$ 3,742,710</u>	<u>\$ 3,742,710</u>

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that addresses credit risk.

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 investment or collateral securities that are in the possession of an outside party. The District’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 3,742,710	100.00
Total	<u>\$ 3,742,710</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,547,702
Investments	3,742,710
Cash on hand	<u>200</u>
Total	<u>\$ 8,290,612</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 8,242,141
Private-purpose trust fund	2,792
Agency fund	<u>45,679</u>
Total	<u>\$ 8,290,612</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2011, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 269,605</u>

Interfund loan receivables/payables were necessary to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid once the anticipated revenues are received and are expected to be repaid in the subsequent year.

Interfund loan balances between governmental funds are eliminated for reporting on the government-wide statement of net assets.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Loans to/from other funds consisted of the following at June 30, 2011, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	<u>\$ 1,279</u>

Loans to/from other funds represent the long-term portion of amounts previously reported as interfund loans receivable/payable. Loans to/from other funds represent interfund loan balances that were not repaid in the subsequent year. Due to their long-term nature, loans to other funds are equally offset by nonspendable fund balance in the general fund.

Loans to/from other funds between governmental funds are eliminated for reporting on the government-wide statement of net assets.

- C.** Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following, as reported on the fund statements:

<u>Transfer from the general fund to:</u>	<u>Amount</u>
Bond retirement fund	<u>\$ 89,592</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and (2) to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the governmental-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 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 alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$4,982,724 in the general fund, \$133,273 in the bond retirement fund and \$324,363 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$5,030,580 in the general fund, \$146,302 in the bond retirement fund and \$328,164 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 523,929,430	96.25	\$ 520,499,100	96.03
Public utility personal	<u>20,439,570</u>	<u>3.75</u>	<u>21,498,390</u>	<u>3.97</u>
Total	<u>\$ 544,369,000</u>	<u>100.00</u>	<u>\$ 541,997,490</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.10		\$ 32.98	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and payments in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Taxes	\$ 13,465,867
Accounts	32,796
Intergovernmental	548,439
Payments in lieu of taxes	<u>348,760</u>
Total	<u>\$ 14,395,862</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - RECEIVABLES - (Continued)

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

NOTE 8 - PAYMENTS 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 the District's operations and will continue through fiscal year 2025. In the governmental fund financial statements, the District recorded payments in lieu of taxes revenue of \$446,185 in the general fund during fiscal year 2011.

NOTE 9 - CAPITAL ASSETS

As stated in Note 3.C., the District's capital assets and accumulated depreciation are being restated due to obtaining an appraisal report. The restatement of capital asset and accumulated depreciation had the following effect on the balances as previously reported as follows:

	<u>Balance 06/30/10</u>	<u>Adjustment for Appraisal of Capital Assets</u>	<u>Restated Balance 06/30/10</u>
Governmental activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 230,664	\$ 180,531	\$ 411,195
Total capital assets, not being depreciated	<u>230,664</u>	<u>180,531</u>	<u>411,195</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	360,224	2,550,419	2,910,643
Buildings and improvements	20,897,387	13,205,070	34,102,457
Furniture, fixtures and equipment	2,056,921	2,506,905	4,563,826
Vehicles	1,714,675	(87,366)	1,627,309
Total capital assets, being depreciated	<u>25,029,207</u>	<u>18,175,028</u>	<u>43,204,235</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	(330,253)	(1,885,582)	(2,215,835)
Buildings and improvements	(9,725,731)	(7,204,948)	(16,930,679)
Furniture, fixtures and equipment	(1,274,491)	(2,275,037)	(3,549,528)
Vehicles	(765,913)	(391,837)	(1,157,750)
Total accumulated depreciation	<u>(12,096,388)</u>	<u>(11,757,404)</u>	<u>(23,853,792)</u>
Governmental activities capital assets, net	<u>\$ 13,163,483</u>	<u>\$ 6,598,155</u>	<u>\$ 19,761,638</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - CAPITAL ASSETS - (Continued)

The following capital asset activity occurred in fiscal year 2011:

	Restated Balance <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 411,195	\$ -	\$ -	\$ 411,195
Total capital assets, not being depreciated	<u>411,195</u>	<u>-</u>	<u>-</u>	<u>411,195</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,910,643	15,754	-	2,926,397
Buildings and improvements	34,102,457	65,770	-	34,168,227
Furniture, fixtures and equipment	4,563,826	51,655	-	4,615,481
Vehicles	<u>1,627,309</u>	<u>177,520</u>	<u>-</u>	<u>1,804,829</u>
Total capital assets, being depreciated	<u>43,204,235</u>	<u>310,699</u>	<u>-</u>	<u>43,514,934</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,215,835)	(80,662)	-	(2,296,497)
Buildings and improvements	(16,930,679)	(620,421)	-	(17,551,100)
Furniture, fixtures and equipment	(3,549,528)	(163,731)	-	(3,713,259)
Vehicles	<u>(1,157,750)</u>	<u>(90,479)</u>	<u>-</u>	<u>(1,248,229)</u>
Total accumulated depreciation	<u>(23,853,792)</u>	<u>(955,293)</u>	<u>-</u>	<u>(24,809,085)</u>
Governmental activities capital assets, net	<u>\$ 19,761,638</u>	<u>\$ (644,594)</u>	<u>\$ -</u>	<u>\$ 19,117,044</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 190,021
Special	60,497
Vocational	64,703

Support services:

Pupil	3,773
Instructional staff	67,665
Administration	85,654
Fiscal	61,956
Business	90,479
Operations and maintenance	101,884
Pupil transportation	101,290
Central	21,417
Food service operations	35,863
Extracurricular	<u>70,091</u>
Total depreciation expense	<u>\$ 955,293</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2011, the following changes occurred in governmental activities long term obligations:

	Balance Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/11</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Refunding bonds - Series 2005					
Current interest bonds	\$ 5,955,000	\$ -	\$ (485,000)	\$ 5,470,000	\$ 510,000
Capital appreciation bonds	255,000	-	-	255,000	-
Accreted interest	167,518	42,292	-	209,810	-
Energy conservation loan - 2008	<u>621,625</u>	<u>-</u>	<u>(75,720)</u>	<u>545,905</u>	<u>77,779</u>
Total long-term bonds and loans	<u>6,999,143</u>	<u>42,292</u>	<u>(560,720)</u>	<u>6,480,715</u>	<u>587,779</u>
Capital leases	35,363	22,623	(11,621)	46,365	13,572
Compensated absences	<u>1,674,519</u>	<u>201,171</u>	<u>(298,522)</u>	<u>1,577,168</u>	<u>329,689</u>
Total long-term obligations	<u>\$ 8,709,025</u>	<u>\$ 266,086</u>	<u>\$ (870,863)</u>	<u>\$ 8,104,248</u>	<u>\$ 931,040</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District, is primarily the general fund.

Capital Lease Obligations: The capital lease obligations are paid from the general fund. See Note 11 for details.

General Obligation Bonds Payable - Series 2005: In February 2005, the District issued \$8,315,000 in 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 1, 2019, with an interest rate of 2.5% to 9.7%. The refunding issue is comprised of both current interest bonds, par value \$8,060,000, and capital appreciation bonds par value \$255,000. The interest rates on the current interest bonds range from 2.50% - 5.00%. The capital appreciation bonds mature on December 1, 2013 (approximate initial offering yield to maturity of 3.80%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2013 is \$590,000. Total accreted interest of \$209,810 has been included on the statement of net assets at June 30, 2011.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2019. Payments of principal and interest are recorded as expenditures of the bond retirement fund.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Loan - 2008: 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 2018, with an interest rate of 2.75%. Payments of principal and interest are recorded as expenditures of the bond retirement fund.

B. Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Year Ending June 30,	Current Interest			Capital Appreciation		
	Refunding Bonds - Series 2005			Refunding Bonds - Series 2005		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 510,000	\$ 211,095	\$ 721,095	\$ -	\$ -	\$ -
2013	570,000	194,610	764,610	-	-	-
2014	-	185,775	185,775	255,000	335,000	590,000
2015	595,000	175,362	770,362	-	-	-
2016	665,000	153,313	818,313	-	-	-
2017 - 2020	<u>3,130,000</u>	<u>308,637</u>	<u>3,438,637</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,470,000</u>	<u>\$ 1,228,792</u>	<u>\$ 6,698,792</u>	<u>\$ 255,000</u>	<u>\$ 335,000</u>	<u>\$ 590,000</u>

Fiscal Year Year Ending June 30,	Energy Conservation Loan		
	Principal	Interest	Total
2012	\$ 77,779	\$ 14,521	\$ 92,300
2013	79,971	12,329	92,300
2014	82,185	10,115	92,300
2015	84,460	7,840	92,300
2016	86,786	5,514	92,300
2017 - 2018	<u>134,724</u>	<u>3,725</u>	<u>138,449</u>
Total	<u>\$ 545,905</u>	<u>\$ 54,044</u>	<u>\$ 599,949</u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$45,225,743 (including available funds of \$2,170,969) and an unvoted debt margin of \$541,997.

NOTE 11 - CAPITAL LEASES

During fiscal year 2011 and in prior fiscal years, the District 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 \$524,008. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$11,621 by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 16,790
2013	16,790
2014	12,496
2015	5,504
2016	<u>1,378</u>
Total minimum lease payments	52,958
Less: amount representing interest	<u>(6,593)</u>
Total	<u><u>\$ 46,365</u></u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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 2011, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and contents-replacement cost	\$ 1,000	\$ 76,185,783
Inland marine coverage	500	942,750
Automobile liability	500	1,000,000
General liability		
Per occurrence		1,000,000
General aggregate		2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2010.

B. Health Care Self-Insurance Program

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 \$589,845 reported in the internal service fund at June 30, 2011 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Change in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2011	\$ 472,392	\$ 3,776,031	\$ (3,658,578)	\$ 589,845
2010	463,816	3,165,440	(3,156,864)	472,392

C. Workers' Compensation Group Rating Plan

For fiscal year 2011, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (See Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Plan.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$486,106, \$530,128 and \$361,877, respectively; 58.96 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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 website at www.strsoh.org, under "*Publications*".

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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2011, 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. 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, 2011, 2010 and 2009 were \$2,278,221, \$2,292,593 and \$2,284,894, respectively; 83.89 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$94,111 made by the District and \$67,222 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$121,721, \$78,841 and \$223,276, respectively; 58.96 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$31,282, \$31,526 and \$29,858, respectively; 58.96 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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, under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$175,248, \$176,353 and \$175,761, respectively; 83.89 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 15 - 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 200 days for certificated personnel and 220 days for classified personnel and administrators. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for certificated employees, 55 days for classified employees and 60 days for all school administrators and other administrators.

B. Life Insurance

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (2,001,281)
Net adjustment for revenue accruals	(12,841)
Net adjustment for expenditure accruals	(547,873)
Net adjustment for other sources/uses	253,984
Funds budgeted elsewhere	16,567
Adjustment for encumbrances	283,017
GAAP basis	\$ (2,008,427)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is a party to other legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 18 - SET-ASIDES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ 612,612	\$ -
Current year set-aside requirement	596,211	596,211
Current year qualifying expenditures	(329,352)	-
Current year offsets	<u>-</u>	<u>(1,056,131)</u>
Total	<u>\$ 879,471</u>	<u>\$ (459,920)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ 879,471</u>	<u>\$ -</u>

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not being presented as being carried forward to the future fiscal year.

Although the District had current year offsets that reduced the capital improvements set-aside below zero, the negative balance is not carried forward to the future fiscal year. A schedule of the restricted assets at June 30, 2011 follows:

Amount restricted for textbooks/instructional supplies	<u>\$ 879,471</u>
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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 19 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 231,264
Other governmental	<u>68,091</u>
Total	<u>\$ 299,355</u>

NOTE 20 - SUBSEQUENT EVENTS

On December 12, 2011, the Board approved Judy Stahl-Reynolds to replace Barbara Donohue as Treasurer of the District effective January 16, 2012.

SUPPLEMENTARY DATA

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Child Nutrition Cluster:				
(D) (E) School Breakfast Program	10.553	2011	\$ 143,512	\$ 143,512
(D) (E) National School Lunch Program	10.555	2011	596,510	596,510
(D) (C) National School Lunch Program - Food Donation	10.555	2011	65,336	65,336
Total National School Lunch Program			<u>661,846</u>	<u>661,846</u>
(D) (E) Special Milk Program for Children	10.556	2011	4,543	4,543
(D) (E) Summer Food Service Program for Children	10.559	2011	37,472	37,472
Total U.S. Department of Agriculture and Child Nutrition Cluster			<u>847,373</u>	<u>847,373</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grant Cluster:				
(G)(I) Title I Grants to Local Educational Agencies	84.010	2010	98,927	142,634
(G)(I) Title I Grants to Local Educational Agencies	84.010	2011	798,885	834,100
Total Title I Grants to Local Educational Agencies			<u>897,812</u>	<u>976,734</u>
(G)(I) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2010	(2,913)	44,748
(G)(I) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2011	105,107	112,418
Total ARRA - Title I Grants to Local Educational Agencies, Recovery Act			<u>102,194</u>	<u>157,166</u>
Total Title I Grant Cluster			<u>1,000,006</u>	<u>1,133,900</u>
Special Education Grant Cluster:				
(F) Special Education_Grants to States	84.027	2010	18,886	80,101
(F) Special Education_Grants to States	84.027	2011	795,589	888,682
Total Special Education_Grants to States			<u>814,475</u>	<u>968,783</u>
(F)(I) ARRA - Special Education Grants to States, Recovery Act	84.391	2010	(141,395)	21,452
(F)(I) ARRA - Special Education Grants to States, Recovery Act	84.391	2011	237,131	267,795
Total ARRA - Special Education Grants to States, Recovery Act			<u>95,736</u>	<u>289,247</u>
(F) Special Education_Preschool Grants	84.173	2010	1,412	2,612
(F) Special Education_Preschool Grants	84.173	2011	17,243	20,159
Total Special Education_Preschool Grants			<u>18,655</u>	<u>22,771</u>
(F)(I) ARRA - Special Education - Preschool Grants, Recovery Act	84.392	2010	(3,831)	-
(F)(I) ARRA - Special Education - Preschool Grants, Recovery Act	84.392	2011	7,242	17,663
Total ARRA - Special Education - Preschool Grants, Recovery Act			<u>3,411</u>	<u>17,663</u>
Total Special Education Grant Cluster			<u>932,277</u>	<u>1,298,464</u>
Safe and Drug-Free Schools and Communities_State Grants	84.186	2010	4,230	4,917
(H) Fund for the Improvement of Education	84.215	N/A	202,407	211,454
(I) Educational Technology State Grants	84.318	2010	28,402	30,860
(I) Educational Technology State Grants	84.318	2011	6,484	23,340
Total Educational Technology State Grants			<u>34,886</u>	<u>54,200</u>
Improving Teacher Quality State Grants	84.367	2010	2,736	35,762
Improving Teacher Quality State Grants	84.367	2011	197,563	210,213
Total Improving Teacher Quality State Grants			<u>200,299</u>	<u>245,975</u>
Education Jobs Fund	84.410	2011	575,774	619,446
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	2011	7,665	7,529
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2011	1,018,863	1,018,863
Total U.S. Department of Education			<u>3,976,407</u>	<u>4,594,748</u>
Total Federal Financial Assistance			<u>\$ 4,823,780</u>	<u>\$ 5,442,121</u>

-Continued

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2011
- (B) This schedule was prepared on the cash basis of accounting.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Cluster" in determining major programs
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis
- (F) Included as part of "Special Education Grant Cluster" in determining major programs
- (G) Included as part of "Title I Grant Cluster" in determining major programs
- (H) This grant was direct from the U.S. Department of Education.
- (I) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2011, the ODE authorized the following transfers

Program Title	CFDA Grant	Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2010	\$ 8,796	
Title I Grants to Local Educational Agencies	84.010	2011		\$ 8,796
Educational Technology State Grants	84.318	2010	843	
Educational Technology State Grants	84.318	2011		843
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2010	2,913	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.839	2011		2,913
ARRA - Special Education Grants to States, Recovery Act	84.391	2010	141,395	
ARRA - Special Education Grants to States, Recovery Act	84.391	2011		141,395
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	2010	7,242	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	2011		7,242
Totals			\$ 161,189	\$ 161,189

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Accounting Standards*

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

To the Board of Education:

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, as of and for the fiscal year ended June 30, 2011, which collectively the comprise Mount Vernon City School District's basic financial statements and have issued our report thereon dated December 26, 2011. We noted that the Mount Vernon City School District adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and restated its net assets as a result of an appraisal performed for capital assets. 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 Mount Vernon City School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Mount Vernon City School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Mount Vernon City School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-MVCSD-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Education
Mount Vernon City School District

Compliance and Other Matters

As part of reasonably assuring whether the Mount Vernon City School 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

The Mount Vernon City School 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 Mount Vernon City School District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the management and Board of Education of the Mount Vernon City School District, federal awarding agencies and pass-through entities, and others within the Mount Vernon City School District. We intend it for no one other than these specified parties.

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

Julian & Grube, Inc.
December 26, 2011



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

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

To the Board of Education:

Compliance

We have audited the compliance of the Mount Vernon City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Mount Vernon City School District's major federal programs for the fiscal year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the Mount Vernon City School District's major federal programs. The Mount Vernon City School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Mount Vernon City School 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 Mount Vernon City School 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 Mount Vernon City School District's compliance with those requirements.

In our opinion, the Mount Vernon City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

The Mount Vernon City School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Mount Vernon City School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Mount Vernon City School District's internal control over compliance.

Board of Education
Mount Vernon City School District

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of 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 over compliance that might be deficiencies, 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.

We intend this report solely for the information and use of the management and Board of Education of the Mount Vernon City School District, federal awarding agencies and pass-through entities, and others within the Mount Vernon City School District. We intend it for no one other than these specified parties.

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

Julian & Grube, Inc.
December 26, 2011

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iii)	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under §.510(a)?</i>	No
(d)(1)(vii)	<i>Major Programs (listed):</i>	Special Education Grant Cluster: Special Education_Grants to States, CFDA #84.027, ARRA - Special Education Grants to States, Recovery Act, CFDA #84.391, Special Education_Preschool Grants, CFDA #84.173, and ARRA - Special Education-Preschool Grants, Recovery Act, CFDA #84.392; ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act, CFDA #84.394; Education Jobs Fund, CFDA #84.410
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2011-MVCSD-001

Significant Deficiency - Financial Statement Presentation

The District presented restated capital assets and related accumulated depreciation in their financial statements based on a valuation by an outside firm. Amounts reported at June 30, 2010 and during fiscal 2011 for capital assets and accumulated depreciation, respectively, were improperly reported.

These discrepancies resulted in a prior period adjustment in the amount of \$18,355,559 for capital assets and \$11,757,404 for accumulated depreciation, for a net asset adjustment of \$6,598,155.

The presentation of materially correct financial statements and the related footnotes, specifically capital assets and related accumulated depreciation and depreciation expense is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to capital assets that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend the District implement control procedures related to capital asset reporting that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes, specifically, its presentation of capital assets and its related depreciation and accumulated depreciation.

Client Response: Presenting accurate financial statements is important to the management and Board of Education of the District. The District has every intention of updating capital assets continually and do not anticipate this type of funding in the future.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-MVCSD-001	<u>Significant Deficiency - Capital Assets</u> - The District was unable to provide a comprehensive detailed listing of capital assets in a easily auditable format.	Yes	N/A
2010-MVCSD-002	<u>Significant Deficiency - Financial Statement Presentation</u> - Misstatements in the financial statements for the fiscal year under audit were not initially identified by the District's internal controls.	No	Repeated as finding 2011-MVCSD-001



Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Mount Vernon City School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on December 6, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Julian & Grube, Inc.
December 26, 2011



Dave Yost • 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
FEBRUARY 16, 2012**