

Dave Yost • Auditor of State

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

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KNOX COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, as of June 30, 2014, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, governmental activities, fund cash balances, cash receipts and disbursements, and long-term debt. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail.

Dave Yost
Auditor of State
Columbus, Ohio

January 21, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 cash basis financial activities for the fiscal year ended June 30, 2014. 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 2014 are as follows:

- In total, net cash position of governmental activities decreased \$267,101, which represents a 5.01% decrease from fiscal year 2013.
- General cash receipts accounted for \$35,013,067 in cash receipts or 81.79% of total cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for \$7,796,436 in cash receipts or 18.21% of total cash receipts of \$42,809,503.
- The District had \$43,076,604 in cash disbursements related to governmental activities; \$7,796,436 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$35,013,067 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund and permanent improvement fund. The general fund had \$33,020,192 in cash receipts and \$32,073,297 in cash disbursements and other financing uses. During fiscal year 2014, the general fund's fund cash balance increased \$946,895 from \$1,225,113 to \$2,172,008.
- The bond retirement fund had \$4,501,677 in cash receipts and other financing sources and \$4,896,037 in cash disbursements and other financing uses. During fiscal year 2014, the bond retirement fund's fund cash balance decreased \$394,360 from \$1,308,501 to \$914,141.
- The permanent improvement fund had \$1,045,116 in cash receipts and \$1,159,482 in cash disbursements. During fiscal year 2014, the permanent improvement fund's fund cash balance decreased \$114,366 from \$819,746 to \$705,380.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position – cash basis and the statement of activities – cash basis answer the question, “How did the District do financially during fiscal year 2014?” These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the District's net cash position and changes in net cash position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis 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.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, 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 position – cash basis and statement of activities – cash basis can be found on pages 16-17 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 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund and permanent improvement 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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 23-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 25-26. 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 27-50 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2014 and June 30, 2013.

Net Cash Position

	Governmental Activities 2014	Governmental Activities 2013
<u>Assets</u>		
Current assets	\$ 5,063,015	\$ 5,330,116
<u>Net Cash Position</u>		
Restricted	2,226,286	2,707,099
Unrestricted	2,836,729	2,623,017
Total net cash position	\$ 5,063,015	\$ 5,330,116

Total net cash position of the District decreased \$267,101, which represents a 5.01% decrease from net cash position at June 30, 2013. A portion of the District's net cash position, \$2,226,286, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$2,836,729 may be used to meet the District's ongoing obligations to its students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The table below shows the change in net cash position for fiscal years 2014 and 2013.

	Change in Net Cash Position	
	Governmental Activities	Governmental Activities
	<u>2014</u>	<u>2013</u>
<u>Cash receipts:</u>		
Program cash receipts:		
Charges for services and sales	\$ 2,037,568	\$ 2,172,299
Operating grants and contributions	5,758,868	5,303,278
General cash receipts:		
Property taxes	15,871,457	14,010,708
Payments in lieu of taxes	265,352	323,501
Grants and entitlements	14,832,609	14,088,506
Earnings on investments	3,185	5,261
Miscellaneous	245,464	250,387
Issuance of refunding bonds	<u>3,795,000</u>	<u>-</u>
Total cash receipts	<u>42,809,503</u>	<u>36,153,940</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Change in Net Cash Position (Continued)	
	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Cash disbursements:</u>		
Current:		
Instruction:		
Regular	\$ 18,228,928	\$ 16,889,945
Special	4,170,359	3,469,199
Vocational	342,502	323,645
Support services:		
Pupil	2,283,725	1,924,180
Instructional staff	1,162,696	1,848,046
Board of education	64,955	194,216
Administration	4,283,518	4,034,892
Fiscal	743,641	689,049
Business	111,902	47,661
Operations and maintenance	2,712,698	2,572,674
Pupil transportation	1,335,120	1,120,963
Central	164,264	128,894
Operation of non-instructional services:		
Other non-instructional services	194,178	225,615
Food service operations	1,444,040	1,302,562
Extracurricular activities	675,499	641,052
Facilities acquisition and construction	269,603	281,784
Debt service:		
Principal retirement	683,752	664,669
Interest and fiscal charges	196,818	209,030
Bond issuance costs	51,795	-
Payment to refunded bond escrow agent	3,956,611	-
Total cash disbursements	<u>43,076,604</u>	<u>36,568,076</u>
Change in net cash position	(267,101)	(414,136)
Net cash position at beginning of year	<u>5,330,116</u>	<u>5,744,252</u>
Net cash position at end of year	<u>\$ 5,063,015</u>	<u>\$ 5,330,116</u>

Governmental Activities

Net cash position of the District's governmental activities decreased \$267,101. Total governmental cash disbursements of \$43,076,604 were offset by program cash receipts of \$7,796,436 and general cash receipts of \$35,013,067. Program cash receipts supported 18.10% of the total governmental cash disbursements.

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

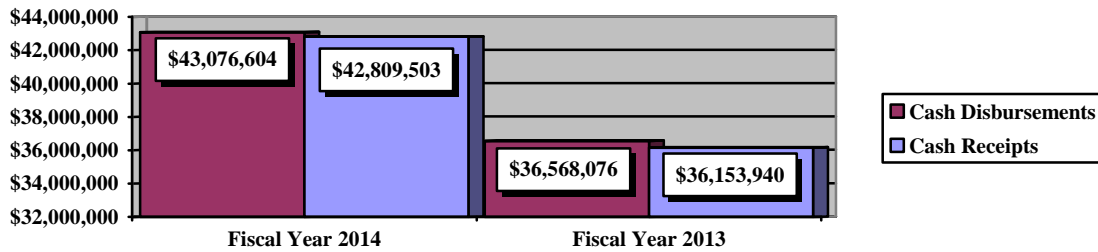
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The primary sources of cash receipts for governmental activities are derived from property taxes and grants and entitlements. These cash receipt sources represent 71.72% of total governmental cash receipts. The increase in cash receipts related to property taxes is mainly attributable to the passage of a levy in May of 2013 that resulted in new money available to the District during fiscal year 2014. Overall general cash receipts also increased due to the issuance of refunding bonds during fiscal year 2014.

The largest cash disbursement category of the District is for instructional programs. Instruction cash disbursements totaled \$22,741,789 or 52.79% of total governmental cash disbursements for fiscal year 2014. Although there was an increase in instruction cash disbursements, the fiscal year 2014 amounts are in line with amounts reported by the District in fiscal years prior to fiscal year 2013. This increase in spending was made possible by the new property tax money available to the District during fiscal year 2014. Overall cash disbursements also increased due to the costs associated with the issuance of refunding bonds during fiscal year 2014.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2014 and 2013.

Governmental Activities - Cash Receipts and Cash Disbursements



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The statement of activities – cash basis 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 2014 and 2013. That is, it identifies the cost of these services supported by tax receipts, unrestricted State grants and entitlements, and other general cash receipts.

Governmental Activities

	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>
Cash disbursements:				
Instruction:				
Regular	\$ 18,228,928	\$ 16,527,726	\$ 16,889,945	\$ 15,071,014
Special	4,170,359	600,709	3,469,199	832,927
Vocational	342,502	303,923	323,645	271,921
Support services:				
Pupil	2,283,725	2,075,488	1,924,180	1,790,446
Instructional staff	1,162,696	952,409	1,848,046	1,223,679
Board of education	64,955	64,955	194,216	164,956
Administration	4,283,518	4,259,692	4,034,892	4,007,776
Fiscal	743,641	743,641	689,049	689,049
Business	111,902	111,902	47,661	47,661
Operations and maintenance	2,712,698	2,701,755	2,572,674	2,535,576
Pupil transportation	1,335,120	1,232,861	1,120,963	830,003
Central	164,264	149,864	128,894	89,384
Operation of non-instructional services:				
Other non-instructional services	194,178	(17,951)	225,615	5,921
Food service operations	1,444,040	(81,255)	1,302,562	(82,557)
Extracurricular activities	675,499	495,870	641,052	459,260
Facilities acquisition and construction	269,603	269,603	281,784	281,784
Debt service:				
Principal retirement	683,752	683,752	664,669	664,669
Interest and fiscal charges	196,818	196,818	209,030	209,030
Bond issuance costs	51,795	51,795	-	-
Payment to refunded bond escrow agent	3,956,611	3,956,611	-	-
Total	<u>\$ 43,076,604</u>	<u>\$ 35,280,168</u>	<u>\$ 36,568,076</u>	<u>\$ 29,092,499</u>

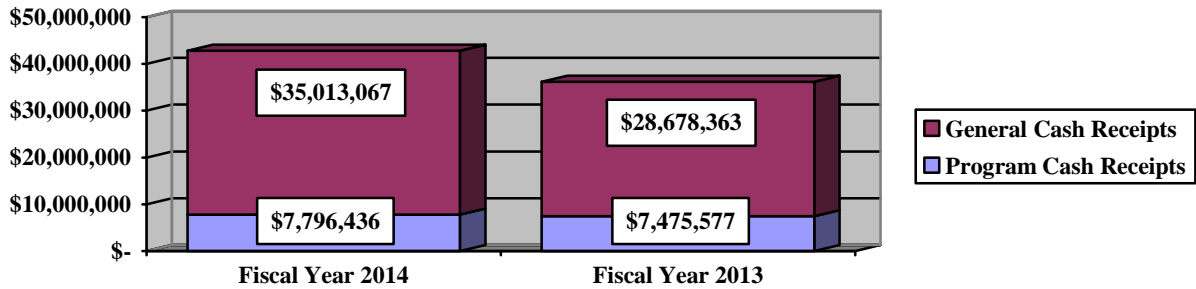
The dependence upon taxes and other general cash receipts for governmental activities is apparent, as 76.65% of instructional activities are supported through taxes and other general cash receipts. For all governmental activities, general cash receipt support is 81.90%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for the District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The graph below presents the District's governmental activities cash receipts for fiscal years 2014 and 2013.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$4,382,491, which is greater than last year's total fund cash balance of \$3,745,664. The table below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2014 and June 30, 2013.

	Fund Cash Balance <u>June 30, 2014</u>	Fund Cash Balance <u>June 30, 2013</u>	Increase/ (Decrease)	<u>Percentage Change</u>
General	\$ 2,172,008	\$ 1,225,113	\$ 946,895	77.29 %
Bond retirement	914,141	1,308,501	(394,360)	(30.14) %
Permanent improvement	705,380	819,746	(114,366)	(13.95) %
Nonmajor governmental	<u>590,962</u>	<u>392,304</u>	<u>198,658</u>	50.64 %
Total	<u>\$ 4,382,491</u>	<u>\$ 3,745,664</u>	<u>\$ 636,827</u>	17.00 %

General Fund

The District's general fund cash balance increased \$946,895.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The table that follows assists in illustrating the financial activities and fund cash balance of the general fund for fiscal years 2014 and 2013.

	<u>2014 Amount</u>	<u>2013 Amount</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<u>Cash receipts</u>				
Taxes	\$ 14,561,843	\$ 12,778,804	\$ 1,783,039	13.95 %
Tuition and transportation fees	1,294,916	1,416,835	(121,919)	(8.61) %
Earnings on investments	2,111	4,420	(2,309)	(52.24) %
Intergovernmental	16,470,701	15,406,036	1,064,665	6.91 %
Payments in lieu of taxes	265,352	323,501	(58,149)	(17.97) %
Other receipts	<u>425,269</u>	<u>438,917</u>	<u>(13,648)</u>	(3.11) %
Total	<u>\$ 33,020,192</u>	<u>\$ 30,368,513</u>	<u>\$ 2,651,679</u>	8.73 %
<u>Cash disbursements</u>				
Instruction	\$ 19,954,032	\$ 19,568,139	\$ 385,893	1.97 %
Support services	11,527,238	11,505,426	21,812	0.19 %
Extracurricular activities	487,231	463,625	23,606	5.09 %
Debt service	<u>12,496</u>	<u>16,790</u>	<u>(4,294)</u>	(25.57) %
Total	<u>\$ 31,980,997</u>	<u>\$ 31,553,980</u>	<u>\$ 427,017</u>	1.35 %

Overall cash receipts of the general fund increased \$2,651,679 or 8.73% during fiscal year 2014. Tax receipts increased \$1,783,039 or 13.95% and intergovernmental receipts increased \$1,064,665 or 6.91% primarily due to the passage of a levy in May of 2013 that resulted in new property tax and homestead and rollback money available to the District during fiscal year 2014. Payments in lieu of taxes decreased \$58,149 or 17.97% mainly due to a reduction in the tax abatement receipts from the City of Mount Vernon during fiscal year 2014. All other cash receipt classifications remained comparable in comparison to the prior fiscal year.

Overall cash disbursements of the general fund increased \$427,017 or 1.35% during fiscal year 2014. The variation from the prior fiscal year in each cash disbursement classification is minimal and reflects the District's effort to continue responsible spending practices.

Bond Retirement Fund

The bond retirement fund had \$4,501,677 in cash receipts and other financing sources and \$4,896,037 in cash disbursements and other financing uses. During fiscal year 2014, the bond retirement fund's fund cash balance decreased \$394,360 from \$1,308,501 to \$914,141. The increases in cash inflows and cash outflows of the bond retirement fund are mainly due to the District's issuance of refunding bonds during fiscal year 2014.

Permanent Improvement Fund

The permanent improvement fund had \$1,045,116 in cash receipts and \$1,159,482 in cash disbursements. During fiscal year 2014, the permanent improvement fund's fund cash balance decreased \$114,366 from \$819,746 to \$705,380. This minimal decrease in fund cash balance reflects the stable nature of the permanent improvement fund's cash receipts and cash disbursements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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.

For the general fund, final budgetary basis receipts and other financing sources of \$34,607,184 were \$2,836,888 greater than original budget estimates of \$31,770,296. The actual budgetary basis receipts and other financing sources of \$33,184,888 were less than final budget estimates by \$1,422,296. The final budgetary basis disbursements and other financing uses of \$32,845,465 matched exactly to original budget estimates. The actual budgetary basis disbursements and other financing uses of \$32,282,905 were \$562,560 less than final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements. The District had facilities acquisition and construction cash disbursements of \$269,603 during fiscal year 2014.

Debt Administration

At June 30, 2014, the District had \$595,000 in series 2005 current interest bonds, \$3,795,000 in series 2014 current interest bonds, \$305,970 in energy conservation loans, and \$6,528 in capital lease obligations. Of this total, \$734,629 is due within one year and \$3,967,869 is due in more than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, Fiscal Year End	
	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
Refunding bonds - series 2005		
Current interest bonds	\$ 595,000	\$ 4,390,000
Capital appreciation bonds	-	255,000
Accreted interest	-	307,518
Refunding bonds - series 2014		
Current interest bonds	3,795,000	-
Energy conservation loan - 2008	305,970	388,155
Capital lease obligations	<u>6,528</u>	<u>18,095</u>
Total	<u>\$ 4,702,498</u>	<u>\$ 5,358,768</u>

At June 30, 2014, the District's overall legal debt margin was \$45,090,356, with an unvoted debt margin of \$539,625. See Note 8 to the basic financial statements for detail on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Current Financial Related Activities

The good news is the District has turned the corner and is well on its way to being back on sound financial footing. With the passage of a levy in May of 2013, the local community overwhelmingly agreed to support the District financially with an additional \$3 million per year for the next five years.

Since the levy passed in May of 2013, the District only benefited from approximately half of the annual levy proceeds in fiscal year 2014, but the District will collect the entire \$3 million increase in fiscal year 2015. The District is mindful of this reality as it begins to make decisions about the financial future of its schools.

In addition to the new voted funds, the District is pleased to be allocated additional funding from the State of Ohio in the biennium budget for fiscal years 2014 and 2015. These two increases in funding will certainly help secure the District's fiscal health and will assure the District continues on a positive fiscal path.

As promised to the voters with the passage of the levy in May of 2013, the District will not allow itself to spend more money that it can afford. With that promise in mind, the District was able to negotiate three-year labor agreements with both of its bargaining units. As part of the negotiations, modest salary increases were agreed upon for fiscal years 2014, 2015, and 2016.

Because the District now has four emergency operating levies, each for five-year terms, the District is exploring options to combine emergency levies in order to avoid asking voters for renewals every year. In November of 2013, the District was able to convert the five-year permanent improvement levy into a continuing levy, which keeps the District from going on the ballot for that issue again in the future.

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 Mrs. Judy Stahl-Reynolds, Treasurer/CFO, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2014

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,063,015
Total assets.	5,063,015
 Net cash position:	
Restricted for:	
Capital projects	785,809
Debt service.	914,141
Locally funded programs	27,253
State funded programs.	94,611
Federally funded programs	19,041
Student activities	59,244
Other purposes	326,187
Unrestricted	2,836,729
Total net cash position	\$ 5,063,015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 18,228,928	\$ 1,372,266	\$ 328,936	\$ (16,527,726)
Special	4,170,359	32,937	3,536,713	(600,709)
Vocational	342,502	-	38,579	(303,923)
Support services:				
Pupil	2,283,725	61,193	147,044	(2,075,488)
Instructional staff	1,162,696	206	210,081	(952,409)
Board of education	64,955	-	-	(64,955)
Administration	4,283,518	-	23,826	(4,259,692)
Fiscal	743,641	-	-	(743,641)
Business	111,902	-	-	(111,902)
Operations and maintenance	2,712,698	10,943	-	(2,701,755)
Pupil transportation	1,335,120	6,787	95,472	(1,232,861)
Central	164,264	-	14,400	(149,864)
Operation of non-instructional services:				
Other non-instructional services	194,178	-	212,129	17,951
Food service operations	1,444,040	379,992	1,145,303	81,255
Extracurricular activities	675,499	173,244	6,385	(495,870)
Facilities acquisition and construction	269,603	-	-	(269,603)
Debt service:				
Principal retirement	683,752	-	-	(683,752)
Interest and fiscal charges	196,818	-	-	(196,818)
Bond issuance costs	51,795	-	-	(51,795)
Payment to refunded bond escrow agent	3,956,611	-	-	(3,956,611)
Total governmental activities	\$ 43,076,604	\$ 2,037,568	\$ 5,758,868	(35,280,168)

General cash receipts:

Property taxes levied for:	
General purposes	14,561,843
Debt service	453,018
Capital projects	856,596
Payments in lieu of taxes	265,352
Grants and entitlements not restricted	
to specific programs	14,832,609
Earnings on investments	3,185
Miscellaneous	245,464
Issuance of refunding bonds	3,795,000
Total general cash receipts	35,013,067
Change in net cash position	(267,101)
Net cash position at beginning of year	5,330,116
Net cash position at end of year	\$ 5,063,015

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,172,008	\$ 914,141	\$ 705,380	\$ 590,962	\$ 4,382,491
Total assets	<u>\$ 2,172,008</u>	<u>\$ 914,141</u>	<u>\$ 705,380</u>	<u>\$ 590,962</u>	<u>\$ 4,382,491</u>
Fund cash balances:					
Restricted:					
Debt service	\$ -	\$ 914,141	\$ -	\$ -	\$ 914,141
Capital improvements	-	-	705,380	80,429	785,809
Food service operations	-	-	-	326,187	326,187
Non-public schools	-	-	-	92,152	92,152
Public school preschool	-	-	-	2,459	2,459
Special education	-	-	-	10,789	10,789
Extracurricular	-	-	-	59,244	59,244
Other purposes.	-	-	-	35,505	35,505
Committed:					
Other purposes.	-	-	-	1,949	1,949
Assigned:					
Student instruction	5,996	-	-	-	5,996
Student and staff support.	113,192	-	-	-	113,192
Pay to participate fees	135,293	-	-	-	135,293
Unassigned (deficit)	1,917,527	-	-	(17,752)	1,899,775
Total fund cash balances.	<u>\$ 2,172,008</u>	<u>\$ 914,141</u>	<u>\$ 705,380</u>	<u>\$ 590,962</u>	<u>\$ 4,382,491</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 POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2014

Total governmental fund cash balances	\$ 4,382,491
<i>Amounts reported for governmental activities on the statement of net position - cash basis are different because:</i>	
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position - cash basis.	<u>680,524</u>
Net position - cash basis of governmental activities	<u><u>\$ 5,063,015</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:					
From local sources:					
Property taxes	\$ 14,561,843	\$ 453,018	\$ 856,596	\$ -	\$ 15,871,457
Tuition	1,288,402	-	-	-	1,288,402
Transportation fees	6,514	-	-	-	6,514
Earnings on investments	2,111	-	78	153	2,342
Charges for services	-	-	-	379,992	379,992
Extracurricular	66,925	-	-	182,855	249,780
Classroom materials and fees	101,937	-	-	-	101,937
Rental income	10,943	-	-	-	10,943
Contributions and donations	54,619	-	-	6,385	61,004
Other local receipts	190,845	-	-	-	190,845
Payments in lieu of taxes	265,352	-	-	-	265,352
Intergovernmental - state	16,414,718	161,359	188,442	1,210,133	17,974,652
Intergovernmental - federal	55,983	-	-	2,554,304	2,610,287
Total cash receipts	<u>33,020,192</u>	<u>614,377</u>	<u>1,045,116</u>	<u>4,333,822</u>	<u>39,013,507</u>
Cash disbursements:					
Current:					
Instruction:					
Regular	17,128,811	-	349,261	312,613	17,790,685
Special	2,491,367	-	-	1,557,301	4,048,668
Vocational	333,854	-	-	-	333,854
Support services:					
Pupil	2,083,950	-	-	151,321	2,235,271
Instructional staff	571,037	-	344,062	215,341	1,130,440
Board of education	64,955	-	-	-	64,955
Administration	4,179,282	-	3,795	24,470	4,207,547
Fiscal	694,206	19,557	20,834	-	734,597
Business	108,365	-	-	-	108,365
Operations and maintenance	2,655,690	-	-	-	2,655,690
Pupil transportation	1,054,507	-	183,181	34,532	1,272,220
Central	115,246	-	-	49,018	164,264
Operation of non-instructional services:					
Other non-instructional services	-	-	-	194,178	194,178
Food service operations	-	-	-	1,396,868	1,396,868
Extracurricular activities	487,231	-	-	188,268	675,499
Facilities acquisition and construction	-	-	258,349	11,254	269,603
Debt service:					
Principal retirement	11,567	672,185	-	-	683,752
Interest and fiscal charges	929	195,889	-	-	196,818
Bond issuance costs	-	51,795	-	-	51,795
Total cash disbursements	<u>31,980,997</u>	<u>939,426</u>	<u>1,159,482</u>	<u>4,135,164</u>	<u>38,215,069</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>1,039,195</u>	<u>(325,049)</u>	<u>(114,366)</u>	<u>198,658</u>	<u>798,438</u>
Other financing sources (uses):					
Issuance of refunding bonds	-	3,795,000	-	-	3,795,000
Payment to refunded bond escrow agent	-	(3,956,611)	-	-	(3,956,611)
Transfers in	-	92,300	-	-	92,300
Transfers (out)	(92,300)	-	-	-	(92,300)
Total other financing sources (uses)	<u>(92,300)</u>	<u>(69,311)</u>	<u>-</u>	<u>-</u>	<u>(161,611)</u>
Net change in fund cash balances	946,895	(394,360)	(114,366)	198,658	636,827
Fund cash balances at beginning of year	<u>1,225,113</u>	<u>1,308,501</u>	<u>819,746</u>	<u>392,304</u>	<u>3,745,664</u>
Fund cash balances at end of year	<u>\$ 2,172,008</u>	<u>\$ 914,141</u>	<u>\$ 705,380</u>	<u>\$ 590,962</u>	<u>\$ 4,382,491</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Net change in fund balances - cash basis - total governmental funds	\$ 636,827
<i>Amounts reported for governmental activities in the statement of activities - cash basis are different because:</i>	
An internal service fund for self-insurance is not reported in the district- wide statement of activities - cash basis. Governmental fund cash disbursements and the related internal service fund cash receipts are eliminated. The net cash receipts (cash disbursements) of the internal service fund are allocated among the governmental activities.	<u>(903,928)</u>
Change in net cash position of governmental activities	<u>\$ (267,101)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 13,941,106	\$ 15,185,960	\$ 14,561,843	\$ (624,117)
Tuition	1,233,481	1,343,623	1,288,402	(55,221)
Transportation fees	6,236	6,793	6,514	(279)
Earnings on investments	2,021	2,201	2,111	(90)
Extracurricular	1,123	1,223	1,173	(50)
Classroom materials and fees	97,592	106,306	101,937	(4,369)
Rental income	10,477	11,412	10,943	(469)
Contributions and donations	619	675	647	(28)
Other local receipts	173,037	188,489	180,742	(7,747)
Payments in lieu of taxes	254,041	276,725	265,352	(11,373)
Intergovernmental - state	15,714,998	17,118,249	16,414,718	(703,531)
Intergovernmental - federal	53,597	58,382	55,983	(2,399)
Total budgetary basis receipts	<u>31,488,328</u>	<u>34,300,038</u>	<u>32,890,365</u>	<u>(1,409,673)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	17,716,702	17,716,702	17,170,328	546,374
Special	2,501,001	2,501,001	2,499,826	1,175
Vocational	335,712	335,712	335,083	629
Support services:				
Pupil	2,001,184	2,001,184	1,993,640	7,544
Instructional staff	594,503	594,503	591,866	2,637
Board of education	64,955	64,955	64,955	-
Administration	4,195,934	4,195,934	4,192,290	3,644
Fiscal	705,007	705,007	704,823	184
Business	109,877	109,877	109,199	678
Operations and maintenance	2,850,780	2,850,780	2,849,514	1,266
Pupil transportation	1,074,650	1,074,650	1,074,322	328
Central	115,246	115,246	115,246	-
Extracurricular activities	487,614	487,614	489,513	(1,899)
Total budgetary basis disbursements	<u>32,753,165</u>	<u>32,753,165</u>	<u>32,190,605</u>	<u>562,560</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements	<u>(1,264,837)</u>	<u>1,546,873</u>	<u>699,760</u>	<u>(847,113)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	281,968	307,146	294,523	(12,623)
Transfers (out)	<u>(92,300)</u>	<u>(92,300)</u>	<u>(92,300)</u>	<u>-</u>
Total other financing sources (uses)	<u>189,668</u>	<u>214,846</u>	<u>202,223</u>	<u>(12,623)</u>
Net change in fund cash balance	(1,075,169)	1,761,719	901,983	(859,736)
Fund cash balance at beginning of year	1,052,372	1,052,372	1,052,372	-
Prior year encumbrances appropriated	98,465	98,465	98,465	-
Fund cash balance at end of year	<u><u>\$ 75,668</u></u>	<u><u>\$ 2,912,556</u></u>	<u><u>\$ 2,052,820</u></u>	<u><u>\$ (859,736)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 680,524
Total assets	680,524
 Net cash position:	
Unrestricted	680,524
Total net cash position	\$ 680,524

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Charges for services	\$ 4,191,868
Total operating cash receipts	<u>4,191,868</u>
Operating cash disbursements:	
Fringe benefits.	310,263
Claims.	<u>4,786,529</u>
Total operating cash disbursements	<u>5,096,792</u>
Operating loss.	<u>(904,924)</u>
Nonoperating cash receipts:	
Earnings on investments	<u>996</u>
Total nonoperating cash receipts.	<u>996</u>
Change in net cash position	(903,928)
Net cash position at beginning of year. .	<u>1,584,452</u>
Net cash position at end of year	<u>\$ 680,524</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,805	\$ 30,321
Total assets.	<u>2,805</u>	<u>30,321</u>
Net cash position:		
Held in trust for scholarships	2,805	-
Held for student activities.	<u>-</u>	<u>30,321</u>
Total net cash position	<u>\$ 2,805</u>	<u>\$ 30,321</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2
Total additions	2
Change in net cash position	2
Net cash position at beginning of year . . .	2,803
Net cash position at end of year	\$ 2,805

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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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, 2014

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 staffed by 134 non-certified employees and 292 certified full-time teaching personnel who provide services to 4,043 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. Following are the more significant of the District’s accounting policies.

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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. 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 government’s 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, 2014

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 (LAN) support, library automation, and Education Management Information System (EMIS) reporting to the Ohio Department of Education. The District paid LACA \$141,350 for services in fiscal year 2014. 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 of Education, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Knox County Career Center, Tracy Elliott, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in the SchoolComp Group Retrospective Rating Program (Group Retro). The Group Retro is offered by the Ohio Bureau of Workers' Compensation and is administered by CompManagement, Inc. The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount with refunds at the end of predetermined evaluation periods. See Note 10 for more information on Group Retro.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable resources are assigned to the various governmental funds according to the purposes for which they may or must be used. 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 cash balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Permanent improvement fund - The permanent improvement fund is used to account for financial resources that are restricted to disbursements for the acquisition or construction of capital facilities and other capital assets.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific receipt sources that are restricted or committed to a disbursement 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 either 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, 2014

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash position. 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 cash 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 and do not involve measurement of results of operations. The District's only trust fund is a private-purpose trust fund that accounts for scholarship programs for students. The District's agency fund accounts for student activities.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net position 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 receipts and disbursements.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All assets and net cash position associated with the operation of the District are included on the statement of net position.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

D. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraphs.

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 appropriation 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 is at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of disbursements, the District has elected to present the budgetary statement comparison at the fund and function level of disbursements. 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 the 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, 2014

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 estimated 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.

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 cover 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 of Education during the fiscal year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts back 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 re-appropriated.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

F. Cash and Investments

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

During fiscal year 2014, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). In accordance with the cash basis of accounting, all District investments are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2014. 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, 2014.

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 receipts credited to the general fund during fiscal year 2014 amounted to \$2,111, which includes \$1,141 assigned from other District funds.

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

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

G. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as cash disbursements when paid. These items are not reflected as assets in the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

I. Interfund Balances

On the fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the statement of activities. The District had no interfund advance activity to report during fiscal year 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation leave and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the cash disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postemployment healthcare.

L. Long-Term Obligations

Bonds, loans, capital leases and other long-term obligations are not recognized as liabilities in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for principal and interest payments, bond issuance costs, and payments to refunded bond escrow agent.

M. Fund Cash Balance

Fund cash 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 cash 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.

Restricted - Fund cash 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 cash 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 cash 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 cash 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 cash 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

Unassigned - Unassigned fund cash 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 cash 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 cash balance is available. Similarly, within unrestricted fund cash 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 cash balance classifications could be used.

N. Restricted Cash Assets

Cash assets are reported as restricted when limitations on their use change the normal understanding of the availability of the cash assets. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted cash assets at June 30, 2014.

O. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District did not have any net cash position restricted by enabling legislation at June 30, 2014. Net cash position restricted for other purposes includes amounts restricted for food service operations.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available.

P. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 and after nonoperating receipts/disbursements in the proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund transfers between governmental funds are eliminated in the statement of activities.

Q. 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 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 67, "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25", and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 67 improves the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The implementation of GASB Statement No. 67 did not have an effect on the financial statements of the District.

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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, 2014

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, or legal governments;
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, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$4,852,596. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2014, \$4,669,619 of the District’s bank balance of \$4,919,619 was exposed to custodial credit risk as discussed below, while \$250,000 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.

B. Investments

As of June 30, 2014, the District had the following investment and maturity:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Maturity</u> 6 months or less
STAR Ohio	\$ 243,545	\$ 243,545

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not address credit risk beyond the requirements of State statutes.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, 2014:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% to Total</u>
STAR Ohio	\$ 243,545	100.00

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of June 30, 2014:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 4,852,596
Investments	<u>243,545</u>
Total	<u>\$ 5,096,141</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 5,063,015
Private-purpose trust fund	2,805
Agency fund	<u>30,321</u>
Total	<u>\$ 5,096,141</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers during fiscal year 2014 consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	<u>Amount</u>
Bond retirement fund	<u>\$ 92,300</u>

Transfers are used to (1) move cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 receipts received in calendar year 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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.

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, 2014, are available to finance fiscal year 2014 operations. 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.

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 511,207,660	95.37	\$ 512,174,750	94.91
Public utility personal	<u>24,836,880</u>	<u>4.63</u>	<u>27,449,860</u>	<u>5.09</u>
Total	<u>\$ 536,044,540</u>	<u>100.00</u>	<u>\$ 539,624,610</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.25		\$ 38.87	

NOTE 7 - 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 cash receipts of \$265,352 in the general fund during fiscal year 2014.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - LONG-TERM OBLIGATIONS

A. During fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2014</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Refunding bonds - Series 2005					
Current interest bonds	\$ 4,390,000	\$ -	\$ (3,795,000)	\$ 595,000	\$ 595,000
Capital appreciation bonds	255,000	-	(255,000)	-	-
Accreted interest	307,518	27,482	(335,000)	-	-
Refunding bonds - Series 2014					
Current interest bonds	-	3,795,000	-	3,795,000	50,000
Energy conservation loan - 2008	<u>388,155</u>	<u>-</u>	<u>(82,185)</u>	<u>305,970</u>	<u>84,460</u>
Total long-term bonds and loans	<u>5,340,673</u>	<u>3,822,482</u>	<u>(4,467,185)</u>	<u>4,695,970</u>	<u>729,460</u>
Capital lease obligations	<u>18,095</u>	<u>-</u>	<u>(11,567)</u>	<u>6,528</u>	<u>5,169</u>
Total long-term obligations	<u>\$ 5,358,768</u>	<u>\$ 3,822,482</u>	<u>\$ (4,478,752)</u>	<u>\$ 4,702,498</u>	<u>\$ 734,629</u>

Capital Lease Obligations: The capital lease obligations are paid from the general fund. See Note 9 for details.

General Obligation Bonds Payable - Series 2005: In February of 2005, the District issued \$8,315,000 in general obligation bonds for the 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 a final maturity at December 1, 2019 and interest rates ranging from 2.50% - 9.70%. The refunding issue was comprised of both current interest bonds, par value \$8,060,000, and capital appreciation bonds, par value \$255,000. During fiscal year 2014, \$3,795,000 in current interest bonds were refunded by the District, leaving an outstanding balance of current interest bonds in the amount of \$595,000. The capital appreciation bonds matured 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 was \$590,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The remaining current interest bonds will mature in fiscal year 2015. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund.

General Obligation Bonds Payable - Series 2014: In June of 2014, the District issued \$3,795,000 in general obligation bonds for the refunding of the 2005 general obligation bonds. This refunding resulted in bond issuance costs of \$51,795 and payments to refunded bond escrow agent of \$3,956,611, and was undertaken to reduce the combined total debt service payments over the next six years by \$192,778. These current interest bonds have a final maturity of December 1, 2019 and an interest rate of 1.656%.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. Payments of principal and interest will be recorded as cash disbursements 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, 2014

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Loan - 2008: In February of 2008, the District issued \$767,000 in 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 a final maturity during fiscal year 2018 and an interest rate of 2.75%.

Payments of principal and interest are recorded as cash disbursements of the bond retirement fund.

- B.** Principal and interest requirements to retire long-term obligations outstanding at fiscal year end are as follows:

Fiscal Year Ending June 30,	Current Interest Refunding Bonds - Series 2005			Current Interest Refunding Bonds - Series 2014		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 595,000	\$ 175,362	\$ 770,362	\$ 50,000	\$ 59,464	\$ 109,464
2016	-	-	-	685,000	56,346	741,346
2017	-	-	-	705,000	44,836	749,836
2018	-	-	-	730,000	32,954	762,954
2019	-	-	-	800,000	20,286	820,286
2020	-	-	-	825,000	6,831	831,831
Total	<u>\$ 595,000</u>	<u>\$ 175,362</u>	<u>\$ 770,362</u>	<u>\$ 3,795,000</u>	<u>\$ 220,717</u>	<u>\$ 4,015,717</u>

Fiscal Year Ending June 30,	Energy Conservation Loan		
	Principal	Interest	Total
2015	\$ 84,460	\$ 7,840	\$ 92,300
2016	86,786	5,514	92,300
2017	89,202	3,098	92,300
2018	45,522	628	46,150
Total	<u>\$ 305,970</u>	<u>\$ 17,080</u>	<u>\$ 323,050</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - 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, 2014, are a voted debt margin of \$45,090,356 (including available funds of \$914,141) and an unvoted debt margin of \$539,625.

NOTE 9 - CAPITAL LEASES

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 generally accepted accounting principles, 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 disbursements in the general fund. These disbursements are reported as function disbursements on the budgetary statements.

Principal payments in fiscal year 2014 totaled \$11,567 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the District's capital leases and the present value of the future minimum lease payments as of June 30, 2014.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 5,504
2016	1,378
Total minimum lease payments	<u>6,882</u>
Less: amount representing interest	<u>(354)</u>
Total	<u>\$ 6,528</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - 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 2014, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Buildings and contents blanket coverage	\$ 5,000	\$ 120,422,538
Inland marine coverage	500	2,322,650
Automobile liability		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 fiscal years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2013.

B. Health Care Self-Insurance Program

Medical/pharmacy and dental insurance is offered to employees through a self-insurance internal service fund. The District contracts with Gallagher Benefit Services for health care consulting services and pays a monthly fee for those services. In addition, the District pays an administrative fee to Mutual Health Services, a third-party administrator, who in turn pays the claims for the District. Claims of \$731,702 are due to be paid from the internal service fund at June 30, 2014. The claims outstanding balance is based on an estimate supplied by the District's third-party administrator, and includes estimates of costs relating to incurred but not reported claims.

Changes in claims due for the current and prior fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2014	\$ 525,973	\$ 4,992,258	\$ (4,786,529)	\$ 731,702
2013	745,653	2,518,698	(2,738,378)	525,973

C. Workers' Compensation

The District participated in the SchoolComp Group Retrospective Rating Program (Group Retro) in fiscal year 2014 (See Note 2.A.). The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount. The District continues to pay their individual premium; however, the District will have the opportunity to receive retrospective premium adjustments (refunds or assessments) at the end of the three evaluation periods. The group's retrospective premium will be calculated at 12, 24, and 36 months after the end of the policy year. At the end of each period, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, all the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by the BWC. CompManagement, Inc. provides administrative, cost control and actuarial services to the Group Retro program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - 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 District 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 "Employers/Audit Resources".

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 2014, 13.05 percent and 0.05 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, 2014, 2013 and 2012 were \$464,489, \$458,467 and \$477,885, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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, 2014

NOTE 11 - 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 2014, plan members were required to contribute 11 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 11 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, 2014, 2013 and 2012 were \$2,190,090, \$2,157,539 and \$2,236,684, respectively; 82.50 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$90,759 made by the District and \$71,311 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, 2014, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 12 - 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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 "Employers/Audit Resources".

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 12 - 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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$63,987, \$59,645 and \$81,362, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, 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, 2014, 2013 and 2012 were \$26,947, \$25,898 and \$28,222, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

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 2014, 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, 2014, 2013 and 2012 were \$168,468, \$165,965 and \$172,053, respectively; 82.50 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 13 - EMPLOYEE BENEFITS

A. Unpaid Vacation Leave and Sick Leave

The criteria for determining vacation leave and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation leave 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 administrators.

Unpaid vacation leave and sick leave is not recorded as a liability on the basic financial statements in accordance with the cash basis of accounting.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of cash receipts, disbursements and change in fund balance - budget and actual (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 cash basis are that:

- (a) 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 a cash disbursement, as opposed to assigned, committed, or restricted fund cash balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash 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, 2014

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Cash Balance

	<u>General fund</u>
Budget basis	\$ 901,983
Funds budgeted elsewhere	2,694
Adjustment for encumbrances	42,218
Cash basis	\$ 946,895

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the public school support fund.

NOTE 15 - 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 not party to any legal proceedings that would have a material effect, if any, on the financial condition of the District.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, 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. This amount must be carried forward to be used for the same purpose in future years. Disbursements and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 16 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	671,929
Current year offsets	<u>(1,045,038)</u>
Total	<u>\$ (373,109)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u><u>\$ -</u></u>

During fiscal years 2005 and 2014, the District issued \$8,315,000 in capital related school improvement bonds and refunding bonds. These proceeds may be used to reduce the capital improvements set-aside amount for future years. The amount presented for prior year offset from debt proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of debt proceeds that may be used as an offset in future periods, which was \$8,315,000 at June 30, 2014.

NOTE 17 - COMMITMENTS

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

<u>Fund</u>	<u>Year End Encumbrances</u>
General	\$ 42,218
Permanent improvement	238,082
Nonmajor governmental funds	<u>80,704</u>
Total	<u><u>\$ 361,004</u></u>

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 66,776	\$ 66,776
Cash Assistance:			
Breakfast Program	10.553	262,983	262,983
National School Lunch Program	10.555	825,562	825,562
Summer Food Service Program for Children	10.559	19,717	19,717
Total Child Nutrition Cluster		<u>1,175,038</u>	<u>1,175,038</u>
Fresh Fruit and Vegetable Program	10.582	13,994	13,994
Total U.S. Department of Agriculture		<u>1,189,032</u>	<u>1,189,032</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	916,459	799,406
Special Education Grants to States	84.027	820,762	842,953
Special Education - Preschool Grant	84.173	34,922	30,656
Total Special Education Cluster		<u>855,684</u>	<u>873,609</u>
Rural Education Grant	84.358	61,782	60,136
Improving Teacher Quality	84.367	232,109	197,566
Race to the Top	84.395	205,604	190,973
Total U.S. Department of Education		<u>2,271,638</u>	<u>2,121,690</u>
Total		<u>\$ 3,460,670</u>	<u>\$ 3,310,722</u>

The accompanying notes are an integral part of this schedule.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2014**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Mount Vernon City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 21, 2015, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Entity's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

January 21, 2015



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Mount Vernon City School District, Knox County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Mount Vernon City School District's major federal program for the year ended June 30, 2014. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Mount Vernon City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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's applicable 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

January 21, 2015

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027 and #84.173 – Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2014
(Continued)

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

FINDING NUMBER 2014-001

Noncompliance – Annual Financial Report

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38 the District may be fined for its failure to file the required financial report.

We recommend the District prepare its financial statements in accordance with GAAP.

Official's Response: The Mount Vernon Board of Education, knowing that the GAAP method is required by the Ohio Revised Code, decided, in the interest of cost containment to approve a contract with Julian & Grube for OCBOA statements to be prepared instead of GAAP for this year. The Board is aware that there will be a comment on our audit to address this matter, along with a financial penalty.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Annual Financial Report	No	Reissued as Finding 2014-001

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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
MARCH 12, 2015**