

**MOUNT VERNON CITY SCHOOL DISTRICT**  
**KNOX COUNTY**  
**SINGLE AUDIT**  
June 30, 2004





**Auditor of State  
Betty Montgomery**

Board of Education  
Mount Vernon City School District  
302 Martinsburg Road  
Mount Vernon, Ohio 43050-4252

We have reviewed the Independent Auditor's Report of the Mount Vernon City School District, Knox County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

January 3, 2005

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**Mount Vernon City School District**  
June 30, 2004

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**Mount Vernon City School District**  
June 30, 2004

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Board of Education  
Mount Vernon City School District  
302 Martinsburg Road  
Mount Vernon, Ohio 43055

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2004 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Wilson, Shannon & Snow, Inc.*

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

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Wilson, Shannon & Snow, Inc.*

Newark, Ohio  
December 9, 2004

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004**

The discussion and analysis of the Mount Vernon City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets increased \$3,614,322.

General revenues accounted for \$32,668,814, or 88% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions accounted for \$4,370,709 or 12% of total revenues of \$37,039,523.

The District's major funds include the General Fund and the Elementary Building Capital Projects Fund. The General Fund had \$30,738,465 in revenues and \$34,240,892 in expenditures and other financing uses. The General Fund's balance decreased \$3,502,427 from the prior fiscal year. The Elementary Building Capital Projects Fund had \$7,051,610 in revenues and other financing sources and \$2,698,908 in expenditures and other financing uses. The Elementary Building Capital Projects Fund's balance increased \$4,352,702 from the prior fiscal year.

The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

During the fiscal year, the District has one outstanding energy conservation loan for ten-years approved June 15, 2000.

**Using the Basic Financial Statements**

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

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

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

For the District, the General Fund is by far the most significant fund. The General Fund and the Elementary Building Capital Projects Fund are the only major funds.

**Reporting the District as a Whole**

**Statement of Net Assets and Statement of Activities**

While these documents contain information about the large number of funds used by the District to provide programs and activities for students, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
(Continued)**

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

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

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

**Reporting the District's Most Significant Funds**

Fund Financial Statements

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

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

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis of fiscal year 2004 to 2003 follows:

<b>Table 1</b>		
<b>Net Assets</b>		
<b>Governmental Activities</b>		
	<b>2004</b>	<b>2003</b>
<u>Assets:</u>		
Current and Other Assets	\$38,442,869	\$38,949,000
Capital Assets, Net	18,228,262	16,224,000
Total Assets	56,671,131	55,173,000
<u>Liabilities:</u>		
Current and Other Liabilities	14,703,719	16,411,000
Long-Term Liabilities	10,521,308	10,930,000
Total Liabilities	25,225,027	27,341,000
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	8,960,474	6,525,000
Restricted	8,671,032	3,856,000
Unrestricted	13,814,598	17,451,000
Total	\$31,446,104	\$27,832,000

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
(Continued)**

Total assets increased \$1,498,131. The majority of the increase was due to the construction in progress of the District's new elementary building. The increase in capital assets was \$2,004,262.

Total liabilities decreased \$2,115,973. There was a decrease of \$408,692 net reduction of long-term liabilities and a decrease of \$1,707,281 in current and other liabilities.

The significant changes in the long-term liabilities are a result of a \$364,266 payment on the School Improvement Bonds and net deletions of \$20,176 to capital leases and sick leave benefits. The increase in deferred revenue is directly related to the increase in taxes receivable from increased tax monies being available from the County Auditor at June 30, 2004.

Table 2 reflects the changes in net assets for fiscal year 2004. A comparative analysis of fiscal year 2004 to 2003 follows:

**Table 2  
Change in Net Assets  
Governmental Activities**

	<u>2004</u>	<u>2003</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$1,905,472	\$1,941,000
Operating Grants, Contributions and Interest	2,465,237	2,679,000
Total Program Revenues	<u>4,370,709</u>	<u>4,620,000</u>
General Revenues:		
Property Taxes	17,957,053	12,115,000
Grants and Entitlements	13,998,291	13,477,000
Interest	227,615	318,000
Gifts and Donations	22,146	16,000
Miscellaneous	463,709	538,000
Total General Revenues	<u>32,668,814</u>	<u>26,464,000</u>
Total Revenues	<u>37,039,523</u>	<u>31,084,000</u>
<u>Expenses:</u>		
Instruction	19,187,133	17,314,000
Support Services:		
Pupils	1,434,655	1,394,000
Instructional Staff	1,791,127	1,459,000
Board of Education	70	124,000
Administration	2,330,666	1,992,000
Fiscal	1,630,136	1,507,000
Business	192,416	157,000
Operation and Maintenance of Plant	3,271,767	2,254,000
Pupil Transportation	1,035,723	1,151,000
Central	20,048	25,000
Non-Instructional	1,286,210	1,224,000
Extracurricular Activities	655,938	596,000
Capital Outlay	-	690,000
Interest and Fiscal Charges	589,312	608,000
Total Expenses	<u>33,425,201</u>	<u>30,495,000</u>
Increase in Net Assets	<u>\$3,614,322</u>	<u>\$589,000</u>

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
(Continued)**

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

Our school district, which is dependent on property taxes and income taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 50 percent of revenues for governmental activities for the District in fiscal year 2004.

Over the past several years the District has experienced a significant amount of growth. The District is located in Knox County, and includes the City of Mount Vernon, all of the Village of Gambier, and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships in Knox County. The total assessed values upon which taxes are collected increased by \$3,886,703 from fiscal year 2003 to fiscal year 2004.

Instruction comprises approximately 77 percent of governmental program expenses and support services make up approximately 23 percent of the program expenses of the District.

Operating grants, contributions and interest decreased \$213,763. This decrease is due to a direct decrease in state foundation from fiscal year 2003 to fiscal year 2004. Tax revenue increased \$5,842,053 was attributed to the collection of delinquent taxes and the reappraisal of real property.

Instruction and administration expenses increased \$2,211,799. Steps and negotiated salary increases contributed to the increases from fiscal year 2003 to fiscal year 2004.

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
(Continued)**

Governmental Activities

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

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
Instruction	\$19,187,133	\$15,832,566	\$17,314,000	\$13,881,000
Support Services:				
Pupils	1,434,655	1,355,069	1,394,000	1,144,000
Instructional Staff	1,791,127	1,780,041	1,459,000	1,439,000
Board of Education	70	70	124,000	124,000
Administration	2,330,666	2,330,666	1,992,000	1,992,000
Fiscal	1,630,136	1,630,136	1,507,000	1,507,000
Business	192,416	192,416	157,000	157,000
Operation and Maintenance of Plant	3,271,767	3,271,767	2,254,000	2,254,000
Pupil Transportation	1,035,723	1,035,723	1,151,000	1,151,000
Central	20,048	20,048	25,000	25,000
Non-Instructional	1,286,210	500,717	1,224,000	443,000
Extracurricular Activities	655,938	515,961	596,000	460,000
Capital Outlay	-	-	690,000	690,000
Interest and Fiscal Charges	589,312	589,312	608,000	608,000
<b>Total Expenses</b>	<b>\$33,425,201</b>	<b>\$29,054,492</b>	<b>\$30,495,000</b>	<b>\$25,875,000</b>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 83 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$43,781,215 and expenditures of \$42,683,599. The net positive change of \$1,097,616 in fund balance for the year indicates the District ability to meet current costs.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

**MOUNT VERNON CITY SCHOOL DISTRICT  
KNOX COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
(Continued)**

Final expenditures were budgeted at \$35,828,796 while actual expenditures were \$34,703,306. The \$1,125,490 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year. Actual General Fund revenues were less than expenditures by \$6,491,052. During fiscal year 2004, interest revenue decreased significantly due to the declining economy. Open enrollment dollars were also recorded as gross receipts for incoming students and expenditures for outgoing students.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the District had \$18,228,262 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

**Debt**

At June 30, 2004, the District had \$8,640,000 in Bond Retirement for general obligation bonds to build The Mount Vernon Middle School. One bond was issued for a ten-year period that matured on December 1, 2003. The other bond was issued for a twenty-five year period, with final maturity on December 1, 2019. These bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$37,193,597, with an un-voted debt margin of \$509,262.

For further information regarding the District's debt see the notes to the basic financial statements.

**Current Issues**

The District is holding its own in the state of a declining economy and uncertainty in State funding. The District is a rural community of 15,000 people in Central Ohio. It has a number of businesses and agriculture as an important part of the economy.

The district is currently operating in the first year of the state biennium budget. According to the 2004 Local District Report Card 47.03% of district revenue sources are from local funds, 46.72% from state funds and the remaining 6.25% is from federal funds. The total expenditure per pupil was calculated at \$6,822.

Over the past several years, the District has remained in a good financial position. In November 2002, the District passed a five-year replacement Permanent Improvement levy. This levy provides additional revenue to be used for maintaining, equipping and improving facilities of the District. In March of 2004, the district passed a five-year Renewal Emergency Levy. This levy provides the continuation of \$1,250,000 in revenue.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Nancy L. Sinclair, Treasurer, Mount Vernon City School District, 302 Martinsburg Road, Mount Vernon, Ohio 43050-4252.

**Mount Vernon City School District**  
**Statement of Net Assets**  
**June 30, 2004**

		<b>Governmental Activities</b>
<b>ASSETS:</b>		
Equity in Pooled Cash and Cash Equivalents	\$	20,896,852
Materials and Supplies Inventory		25,446
Accounts Receivable		6,170
Intergovernmental Receivable		300,154
Taxes Receivable		17,214,247
Non-Depreciable Capital Assets		3,024,572
Depreciable Capital Assets, net		15,203,690
<b>Total Assets</b>		<b><u>56,671,131</u></b>
<b>LIABILITIES:</b>		
Accounts Payable		300,674
Accrued Wages and Benefits		2,373,025
Contracts Payable		394,194
Intergovernmental Payable		660,601
Deferred Revenue		10,472,592
Claims Payable		474,485
Matured Severance Payable		28,148
Long-Term Liabilities:		
Due Within One Year		496,340
Due in More Than One Year		10,024,968
<b>Total Liabilities</b>		<b><u>25,225,027</u></b>
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt		8,960,474
Restricted for Debt Service		1,276,224
Restricted for Capital Outlay		6,654,761
Restricted for Other Purposes		740,047
Unrestricted		13,814,598
<b>Total Net Assets</b>	<b>\$</b>	<b><u>31,446,104</u></b>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004**

	<u>Expenses</u>	<u>Program Revenues Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Net(Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 15,273,994	\$ 1,219,900	\$ 588,556	\$ (13,465,538)
Special	3,563,889	-	1,546,111	(2,017,778)
Vocational	349,250	-	-	(349,250)
Support Services:				
Pupils	1,434,655	11,955	67,631	(1,355,069)
Instructional Staff	1,791,127	-	11,086	(1,780,041)
Board of Education	70	-	-	(70)
Administration	2,330,666	-	-	(2,330,666)
Fiscal	1,630,136	-	-	(1,630,136)
Business	192,416	-	-	(192,416)
Operation and Maintenance of Plant	3,271,767	-	-	(3,271,767)
Pupil Transportation	1,035,723	-	-	(1,035,723)
Central	20,048	-	-	(20,048)
Operation of Non-Instructional Services	1,286,210	533,640	251,853	(500,717)
Extracurricular Activities	655,938	139,977	-	(515,961)
Interest and Fiscal Charges	589,312	-	-	(589,312)
<b>Total Governmental Activities</b>	<b>\$ <u>33,425,201</u></b>	<b>\$ <u>1,905,472</u></b>	<b>\$ <u>2,465,237</u></b>	<b>\$ <u>(29,054,492)</u></b>
General Revenues:				
Property Taxes Levied for:				
General Purposes			\$ 15,927,723	
Capital Outlay			939,169	
Debt Service			1,090,161	
Grants and Entitlements not Restricted to Specific Programs			13,998,291	
Gifts and Donations			22,146	
Investment Earnings			227,615	
Miscellaneous			463,709	
<b>Total General Revenues</b>			<b><u>32,668,814</u></b>	
Change in Net Assets			3,614,322	
Net Assets Beginning of Year			<u>27,831,782</u>	
<b>Net Assets End of Year</b>			<b>\$ <u>31,446,104</u></b>	

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	<b>GENERAL FUND</b>	<b>ELEMENTARY BUILDING FUND</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 11,477,952	\$ 4,980,291	\$ 3,294,113	\$ 19,752,356
Materials and Supplies Inventory	-	-	25,446	25,446
Accounts Receivable	2,532	-	3,638	6,170
Interfund Receivable	59,358	-	-	59,358
Intergovernmental Receivable	-	-	300,154	300,154
Taxes Receivable	15,115,321	-	2,098,926	17,214,247
<b>Total Assets</b>	<b>26,655,163</b>	<b>4,980,291</b>	<b>5,722,277</b>	<b>37,357,731</b>
<b>LIABILITIES:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	196,361	5,185	99,128	300,674
Accrued Wages and Benefits	2,218,739	-	154,286	2,373,025
Contracts Payable	-	394,194	-	394,194
Interfund Payable	-	-	59,358	59,358
Intergovernmental Payable	422,515	-	24,549	447,064
Deferred Revenue	10,188,295	-	1,502,894	11,691,189
Matured Severance Payable	23,072	-	5,076	28,148
<b>Total Liabilities</b>	<b>13,048,982</b>	<b>399,379</b>	<b>1,845,291</b>	<b>15,293,652</b>
<b>Equity:</b>				
<b>FUND BALANCES:</b>				
<b>Reserved:</b>				
Reserved for Encumbrances	551,845	4,803,020	495,613	5,850,478
Reserved for Advances	60,485	-	-	60,485
Reserved for Property Taxes	4,927,026	-	627,682	5,554,708
Reserved for Other Purposes	40,100	-	-	40,100
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	8,026,725	-	-	8,026,725
Special Revenue Funds	-	-	589,517	589,517
Debt Service Funds	-	-	895,320	895,320
Capital Projects Funds	-	(222,108)	1,268,854	1,046,746
<b>Total Fund Balances</b>	<b>13,606,181</b>	<b>4,580,912</b>	<b>3,876,986</b>	<b>22,064,079</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 26,655,163</b>	<b>\$ 4,980,291</b>	<b>\$ 5,722,277</b>	<b>\$ 37,357,731</b>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2004**

Total Governmental Fund Balances	\$	22,064,079
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		18,228,262
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes Receivable	1,218,597	1,218,597
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(213,537)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Internal Service Cash	1,144,496	
Claims Payable	(474,485)	
General Obligation Bonds Payable	(9,075,669)	
Compensated Absences Payable	(1,253,520)	
Capital Leases Payable	(192,119)	
		(9,851,297)
Net Assets of Governmental Activities	\$	31,446,104

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2004**

	<u>GENERAL FUND</u>	<u>ELEMENTARY BUILDING FUND</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 15,655,042	\$ -	\$ 2,000,446	\$ 17,655,488
Intergovernmental	13,358,294	-	3,073,584	16,431,878
Interest	159,669	26,770	29,198	215,637
Tuition and Fees	1,113,234	-	92,304	1,205,538
Rent	14,362	-	450	14,812
Extracurricular Activities	-	-	151,482	151,482
Gifts and Donations	1,070	-	21,076	22,146
Customer Sales and Services	-	-	533,640	533,640
Miscellaneous	436,794	24,840	2,015	463,649
<b>Total Revenues</b>	<u>30,738,465</u>	<u>51,610</u>	<u>5,904,195</u>	<u>36,694,270</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	14,385,294	-	437,613	14,822,907
Special	2,294,284	-	1,218,348	3,512,632
Vocational	288,331	-	335	288,666
<b>Support Services:</b>				
Pupils	1,156,698	-	274,881	1,431,579
Instructional Staff	1,297,293	-	474,062	1,771,355
Board of Education	48,312	-	-	48,312
Administration	2,083,266	-	111,405	2,194,671
Fiscal	1,508,434	-	55,013	1,563,447
Business	174,423	-	7,951	182,374
Operation and Maintenance of Plant	2,422,234	-	42,038	2,464,272
Pupil Transportation	918,104	-	94	918,198
Central	20,048	-	-	20,048
Operation of Non-Instructional Services	-	-	1,280,507	1,280,507
Extracurricular Activities	454,680	-	135,152	589,832
Capital Outlay	-	2,698,908	752,350	3,451,258
<b>Debt Service:</b>				
Principal	66,743	-	364,266	431,009
Interest	-	-	589,312	589,312
<b>Total Expenditures</b>	<u>27,118,144</u>	<u>2,698,908</u>	<u>5,743,327</u>	<u>35,560,379</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>3,620,321</u>	<u>(2,647,298)</u>	<u>160,868</u>	<u>1,133,891</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	-	7,000,000	86,885	7,086,885
Proceeds from Sale of Fixed Assets	-	-	60	60
Transfers Out	(7,086,885)	-	-	(7,086,885)
<b>Total Other Financing Sources and Uses</b>	<u>(7,086,885)</u>	<u>7,000,000</u>	<u>86,945</u>	<u>60</u>
<b>Net Change in Fund Balances</b>	(3,466,564)	4,352,702	247,813	1,133,951
Fund Balance at Beginning of Year	17,072,745	228,210	3,629,173	20,930,128
<b>Fund Balance at End of Year</b>	<u>\$ 13,606,181</u>	<u>\$ 4,580,912</u>	<u>\$ 3,876,986</u>	<u>\$ 22,064,079</u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District**  
**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to Statement Activities**  
**For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 1,133,951

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	2,914,472	
Depreciation	<u>(909,745)</u>	
		2,004,727

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

Intergovernmental	31,650	
Property Taxes	301,565	
Interest	<u>11,978</u>	
		345,193

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 431,009

Internal service fund is not included in governmental fund financial statements. (267,971)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(9,860)	
Compensated Absences Payable	<u>(22,727)</u>	
		<u>(32,587)</u>

Change in Net Assets of Governmental Activities \$ 3,614,322

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District**  
**Schedule of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget (Non-GAAP Basis) and Actual**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 21,226,337	\$ 13,051,283	\$ 13,051,283	-
Intergovernmental	4,210,394	4,210,394	13,358,294	9,147,900
Interest	-	-	159,669	159,669
Tuition and Fees	998,920	998,920	1,114,391	115,471
Rent	-	-	14,582	14,582
Gifts and Donations	-	-	1,070	1,070
Miscellaneous	347,157	347,157	399,584	52,427
Total Revenues	<u>26,782,808</u>	<u>18,607,754</u>	<u>28,098,873</u>	<u>9,491,119</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	14,472,334	14,487,000	14,486,132	868
Special	2,393,589	2,398,000	2,397,781	219
Vocational	298,010	298,010	291,364	6,646
Support Services:				
Pupils	1,174,539	1,174,539	1,120,243	54,296
Instructional Staff	1,337,285	1,390,000	1,389,368	632
Board of Education	80,696	80,696	49,117	31,579
Administration	2,139,448	2,136,746	2,091,767	44,979
Fiscal	2,663,026	2,191,071	1,496,330	694,741
Business	175,805	175,805	169,580	6,225
Operation and Maintenance of Plant	2,854,468	2,853,830	2,593,947	259,883
Pupil Transportation	1,101,493	1,101,493	1,042,018	59,475
Central	27,300	27,300	23,105	4,195
Extracurricular Activities	55,006	455,006	453,669	1,337
Total Expenditures	<u>28,772,999</u>	<u>28,769,496</u>	<u>27,604,421</u>	<u>1,165,075</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,990,191)</u>	<u>(10,161,742)</u>	<u>494,452</u>	<u>10,656,194</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Refund of Prior Year Expenditures	-	-	38,315	38,315
Advances In	-	-	75,066	75,066
Transfers Out	(7,059,300)	(7,059,300)	(7,086,885)	(27,585)
Advances Out	-	-	(12,000)	(12,000)
Total Other Financing Sources and Uses	<u>(7,059,300)</u>	<u>(7,059,300)</u>	<u>(6,985,504)</u>	<u>73,796</u>
Net Change in Fund Balances	<u>(9,049,491)</u>	<u>(17,221,042)</u>	<u>(6,491,052)</u>	<u>10,729,990</u>
Fund Balance at Beginning of Year	16,262,343	16,262,343	16,262,343	-
Prior Year Encumbrances Appropriated	958,696	958,696	958,696	-
Fund Balance (Deficit) at End of Year	<u>\$ 8,171,548</u>	<u>\$ (3)</u>	<u>\$ 10,729,987</u>	<u>\$ 10,729,990</u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Statement of Fund Net Assets  
Proprietary Fund  
June 30, 2004**

	<u>Governmental Activities Internal Service Fund</u>
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>1,144,496</u>
Total Current Assets	<u>1,144,496</u>
 Total Assets	 <u><u>1,144,496</u></u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Claims Payable	<u>474,485</u>
Total Current Liabilities	<u>474,485</u>
 Total Liabilities	 <u><u>474,485</u></u>
<b>NET ASSETS:</b>	
Unrestricted	<u>670,011</u>
Total Net Assets	<u><u>\$ 670,011</u></u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2004**

	<b>Governmental            Activities            Internal Service Fund</b>
<b>OPERATING REVENUES:</b>	
Charges for Services	\$ 2,910,091
Total Operating Revenues	<u>2,910,091</u>
<b>OPERATING EXPENSES:</b>	
Salaries	12,094
Fringe Benefits	151,931
Purchased Services	3,009,167
Materials and Supplies	1,100
Other	3,770
Total Operating Expenses	<u>3,178,062</u>
Operating Income (Loss)	<u>(267,971)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Interest	11,978
Total Non-Operating Revenues (Expenses)	<u>11,978</u>
Net Change in Net Assets	(255,993)
Net Assets (Deficit) at Beginning of Year	926,004
Net Assets (Deficit) at End of Year	\$ <u><u>670,011</u></u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activities Internal Service Fund</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Charges for Services	\$ 2,910,091
Cash Payments for Employee Services	(12,094)
Cash Payments for Employee Benefits	(151,931)
Cash Payments for Purchase Services	(2,848,199)
Cash Payments to Suppliers for Goods and Service	(1,100)
Cash Payments for Other	(3,770)
<b>Net Cash Used by Operating Activities</b>	<u>(107,003)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Received	11,978
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>11,978</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(95,025)
Cash and Cash Equivalents at Beginning of Year	1,239,521
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,144,496</u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:</b>	
Operating Income (Loss)	\$ (267,971)
Adjustments	
Increase (Decrease) in Liabilities:	
Claims Payable	160,968
<b>Net Cash Used by Operating Activities</b>	<u>\$ (107,003)</u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Statement of Fiduciary Net Assets  
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>2,735</u>	\$ <u>46,328</u>
Total Assets	<u>2,735</u>	<u>46,328</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Undistributed Monies	<u>-</u>	<u>46,328</u>
Total Liabilities	<u>-</u>	<u>\$ 46,328</u>
<b>NET ASSETS:</b>		
Held in Trust for Scholarships	<u>2,735</u>	<u>-</u>
Total Net Assets	<u>\$ 2,735</u>	<u>\$ -</u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Statement of Changes in Fiduciary Net Assets  
For the Fiscal Year Ended June 30, 2004**

	<b>Private Purpose Trust</b>
<b>ADDITIONS:</b>	
Interest	\$ <u>28</u>
Total Additions	<u>28</u>
<b>DEDUCTIONS:</b>	
Payments in Accordance with Trust Agreements	<u>100</u>
Total Deductions	<u>100</u>
Change in Net Assets	(72)
Net Assets Beginning of Year	2,807
Net Assets End of Year	\$ <u><u>2,735</u></u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004

**1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

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

The District was established in the 1870s through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike, and Pleasant Townships. The District is the 92nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 157 non-certificated employees and 280 certificated full-time teaching personnel who provide services to 4,124 students and other community members. The District currently operates 9 instructional buildings, one administrative building, and one garage.

*Reporting Entity:*

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

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

The following activities are included within the reporting entity:

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

The District is associated with three organizations, which, are defined as a joint venture, a jointly governed organization, and an insurance purchasing pool. These organizations include the Tri-Rivers Educational Computer Association, Knox County Career Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

**B. Fund Accounting**

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

Governmental Funds

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

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

Elementary Building Capital Projects Fund - The Elementary Building Capital Projects Fund is used to account for the construction of the building project.

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

Fiduciary Funds

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

**C. Measurement Focus**

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

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

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

Expenditures/Expenses

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

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

**E. Cash and Cash Equivalents**

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

During fiscal year 2004, investments were limited to STAR Ohio. All investments of the District had a maturity of two years or less. Investments are stated at cost or amortized cost. Investment earnings are allocated as authorized by State statute based upon District policy.

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

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**G. Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

**H. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation.

**I. Capital Assets**

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

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

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

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

**J. Interfund Balances**

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

**K. Compensated Absences**

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

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

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

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

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**M. Net Assets**

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

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

**N. Fund Balance Reserves and Designations**

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

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The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**O. Interfund Transactions**

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

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

**P. Estimates**

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

**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 District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**R. Total Columns on General Purpose Financial Statements**

Total columns on the basic financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**3. BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

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

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

<b>Net Change in Fund Balance Major Governmental Fund</b>	
	<b>General</b>
GAAP Basis	(\$3,466,564)
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	2,327,154
Accrued FY 2004, Not Yet Received in Cash	(4,965,796)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(2,599,004)
Accrued FY 2004, Not Yet Paid in Cash	2,898,053
Advances In	63,066
Encumbrances Outstanding at Year End (Budget Basis)	(747,961)
Budget Basis	(\$6,491,052)

**4 DEPOSITS AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;

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- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3. The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

*Deposits:*

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

*Investments:*

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.

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- Category 2    Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3    Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

*Deposits:* At fiscal year end, the carrying amount of the District's deposits was \$750,641 and the bank balance was \$1,001,360. Of the bank balance, \$200,000 was covered by federal depository insurance and \$801,360 was covered by pledged securities. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

*Investments:* The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District's investments in deferred compensation and STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<b>Carrying Value</b>	<b>Market Value</b>
STAR Ohio	\$20,195,274	\$20,195,274
Totals	\$20,195,274	\$20,195,274

**5. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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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, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$4,927,026 in the General Fund, \$313,841 in the Bond Retirement Debt Service Fund and \$313,841 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2004 taxes were collected are:

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$397,808,220	79%	\$405,814,930	80%
Public Utility	20,616,380	4%	20,641,430	4%
Tangible Personal Property	86,950,887	17%	82,805,830	16%
Total Assessed Value	<u>\$505,375,487</u>	<u>100%</u>	<u>\$509,262,190</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$35.43		\$35.43	

**6. RECEIVABLES**

Receivables at June 30, 2004, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<b>Amount</b>
Governmental Activities	
Food Service	\$107,352
Title I	128,044
Title II-A	64,758
Total Governmental Activities	<u>\$300,154</u>

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Notes to the Basic Financial Statements  
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**7. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$325,664	\$-	\$-	\$325,664
Construction in Progress	-	2,698,908	-	2,698,908
Total Nondepreciable Capital Assets	<u>325,664</u>	<u>2,698,908</u>	<u>-</u>	<u>3,024,572</u>
Depreciable Capital Assets				
Land Improvements	348,907	-	-	348,907
Buildings and Building Improvements	20,634,119	-	-	20,634,119
Furniture, Fixtures, and Equipment	5,604,194	215,564	-	5,819,758
Vehicles	1,177,300	-	-	1,177,300
Total Depreciable Capital Assets	<u>27,764,520</u>	<u>215,564</u>	<u>-</u>	<u>27,980,084</u>
Total Capital Assets	<u>28,090,184</u>	<u>2,914,472</u>	<u>-</u>	<u>31,004,656</u>
Less Accumulated Depreciation				
Land Improvements	309,495	2,925	-	312,420
Buildings and Building Improvements	6,687,575	402,496	-	7,090,071
Furniture, Fixtures, and Equipment	4,075,856	439,772	-	4,515,628
Vehicles	793,723	64,552	-	858,275
Total Accumulated Depreciation	<u>11,866,649</u>	<u>909,745</u>	<u>-</u>	<u>12,776,394</u>
Depreciable Capital Assets, Net	<u>15,897,871</u>	<u>(694,181)</u>	<u>-</u>	<u>15,203,690</u>
Governmental Activities Capital Assets, Net	<u>\$16,223,535</u>	<u>\$2,004,727</u>	<u>\$-</u>	<u>\$18,228,262</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$361,357
Special	54,458
Vocational	58,520
Support Services:	
Instructional Staff	61,105
Administration	58,541
Fiscal	53,938
Operation and Maintenance of Plant	90,001
Pupil Transportation	89,896
Operations of Non-Instruction	13,639
Extracurricular	63,004
Capital Outlay	5,286
Total Depreciation Expense	<u>\$909,745</u>

**Mount Vernon City School District  
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Notes to the Basic Financial Statements  
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**8. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2004, on the fund financial statements, the District Managed Activities and Title I special revenue funds owed the General Fund \$47,358, and \$12,000, respectively. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

**9. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$1,000	\$60,427,233
Inland Marine Coverage	1,000	500,000
Automobile Liability		1,000,000
General Liability		
Per occurrence		3,000,000
Per year		5,000,000

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

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of \$474,485 reported in the Internal Service Fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$376,037	\$2,101,594	\$2,164,114	\$313,517
2004	\$313,517	\$3,009,167	\$2,848,199	\$474,485

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**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$489,641, \$440,050, and \$459,947, respectively; which were equal to the required contributions for each year.

**B. State Teachers Retirement System**

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

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

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,118,414, \$1,937,858, and \$1,926,157, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$371,100.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

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Notes to the Basic Financial Statements  
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**11. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 4.5% of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

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**12. EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Life Insurance**

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

**13. LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during fiscal year 2004 were as follows:

	<b>Balance at 07/01/03</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at 06/30/04</b>	<b>Amount Due in One Year</b>
General Obligation Bonds	\$8,845,000	\$-	\$205,000	\$8,640,000	\$325,000
General Obligation Bonds	100,000	-	100,000	-	-
Energy Conservation Loan	494,935	-	59,266	435,669	62,722
Long-Term Bonds & Loan	9,439,935	-	364,266	9,075,669	387,722
Capital Leases	258,862	-	66,743	192,119	72,283
Compensated Absences	1,166,601	1,253,520	1,166,601	1,253,520	36,335
<b>Total Long-Term Obligations</b>	<b>\$10,865,398</b>	<b>\$1,253,520</b>	<b>\$1,597,610</b>	<b>\$10,521,308</b>	<b>\$496,340</b>

*General Obligation Bonds* - In December 1993, the Mount Vernon City School District issued voted general obligation bonds for school buildings and improvements. The bonds were issued for a ten-year period with final maturity at December 2003, with an interest rate of 4.80 to 4.90%. The bonds were retired from the Debt Service Fund.

*General Obligation Bonds* - In May 1994, the Mount Vernon City School District issued general obligation bonds for the school buildings and improvements. The bonds were issued for a twenty-six year period with final maturity at June 2020, with an interest rate of 5.05 to 5.90%. The bonds will be retired from the Debt Service Fund.

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

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

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2004, are as follows:

<b>Fiscal year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$387,722	\$568,932	\$956,654
2006	411,381	546,849	958,230
2007	435,253	523,087	958,340
2008	459,350	497,422	956,772
2009	483,687	469,973	953,660
2010-2014	2,573,276	1,811,746	4,385,022
2015-2019	3,495,000	784,106	4,279,106
2020-2021	830,000	24,277	854,277
Total	<u>\$9,075,669</u>	<u>\$5,226,392</u>	<u>\$14,302,061</u>

**14. CAPITAL LEASES - LESSEE DISCLOSURE**

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

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$349,510. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2004 totaled \$66,743 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

<b>Fiscal Year Ending June 30,</b>	<b>Amount</b>
2005	\$85,039
2006	85,040
2007	42,520
Total	\$212,599
Less: Amount Representing Interest	(20,480)
Present Value of Net Minimum Lease Payments	<u>\$192,119</u>

**15. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Totals</u>
Set-aside Cash Balance as of June 30, 2003	\$21,976	(\$792,616)	(\$770,640)
Current Year Set-aside Requirement	557,563	557,563	1,115,126
Qualifying Disbursements	(723,907)	(747,444)	(1,483,043)
Total	<u>(\$144,368)</u>	<u>(\$982,497)</u>	<u>(\$1,138,557)</u>
Cash Balance Carried Forward to FY 2005	<u>(\$144,368)</u>	<u>(\$982,497)</u>	<u>(\$144,368)</u>

**16. JOINTLY GOVERNED ORGANIZATIONS**

*Tri-Rivers Educational Computer Association* - The Tri-Rivers Educational Computer Association (TRECA) is a non-for-profit computer service bureau owned and operated by public school districts in the Ohio counties of Delaware, Marion, Morrow, Wyandot, Knox and Muskingum. The primary function of TRECA is to provide data processing services to the member districts in administrative areas with the major emphasis being placed upon accounting, inventory control and payroll services. Other areas of service provided by TRECA include career guidance services, handicapped student tracking, professional development and technical services, and limited cooperative purchasing. Tri-Rivers Joint Vocational School District is one of TRECA's member districts and acts as the fiscal agent for TRECA.

The District paid TRECA \$131,455 for services in fiscal year 2004. Financial information can be obtained from Mike Carder, who serves as Director, at 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

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

**17. INSURANCE PURCHASING POOL**

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

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

**Mount Vernon City School District  
Knox County**

Notes to the Basic Financial Statements  
June 30, 2004  
(Continued)

**18. STATE SCHOOL FUNDING DECISION**

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

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

**19. INTERFUND TRANSFERS**

During the year ended June 30, 2004, the General Fund transferred \$86,885 to Other Non-major Governmental Funds, the transfer was made to account for principal and interest payments. The General Fund transferred \$7,000,000 to the New Elementary Major Fund. This transfer was made to account for construction expenditures for the new school building.

**20. CONTINGENCIES**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**B. Litigation**

There are currently no matters in litigation with the District as defendant.

**21. CONTRACTUAL COMMITMENTS**

As of June 30, 2004, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
MKC Associates	\$7,967
Helser Woodland Management	516
Library Desing Associates, Inc.	55,500
Universal Refrigeration	489,565
Ben. D. Imhoff, Inc.	2,475,843
Kahl's Electric	480,269
Gutridge Plumbing, Inc.	69,036
Stonecreek Interior	163,194
Helbling's Supply, Inc.	93,899
Comfort Control Group, Inc.	81,337
Mount Vernon News	200
Kokosing Construction, Inc.	196,685
Total	<u>\$4,114,011</u>

**Mount Vernon City School District**  
**Schedule of Federal Awards Receipts and Expenditures**  
**Year ended June 30, 2004**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. Department of Agriculture</u></b>						
Passed through Ohio Department of Education						
<b>Nutrition Cluster:</b>						
Food Distribution		10.550	\$ -	\$ 61,460	\$ -	\$ 61,460
National School Breakfast Program	05-PU-03 & 04	10.553	57,538	-	90,214	-
National School Lunch Program	LL-P1-03 LL-P4-03 & 04	10.555	294,368	-	261,674	-
Special Milk Program	02-PU-03 & 04	10.556	2,695	-	2,695	-
Summer Food Program	23-PU-03 24-PU-03	10.559	8,576	-	8,576	-
Total U.S. Department of Agriculture - Nutrition Cluster			<u>363,177</u>	<u>61,460</u>	<u>363,159</u>	<u>61,460</u>
<b><u>U.S. Department of Education</u></b>						
Passed through Ohio Department of Education						
<b>Special Education Cluster:</b>						
Special Education Grants to States (IDEA Part B)	6B-SF-03 6B-SF-04	84.027	749,550	-	736,265	-
Special Education - Preschool Grant	PG-S1-03	84.173	23,397	-	23,518	-
Total Special Education Cluster			<u>772,947</u>	<u>-</u>	<u>759,783</u>	<u>-</u>
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-03 C1-S1-04	84.010	860,320	-	919,182	-
Improving Teacher Quality	TR-S1-03 TR-S1-04	84.367	236,250	-	243,811	-
Innovative Educational Program Strategies (Title VI)	C2-S1-03 C2-S1-04	84.298	27,139	-	27,028	-
School Renovation Grant	AT-S4-02	84.352	10,212	-	10,212	-
Drug-Free Schools Grant	DR-S1-03 DR-S1-04	84.186	29,564	-	29,564	-
Enhancing Education Through Technology Program	TJ-S1-04	84.318	22,927	-	22,927	-
Total U.S. Department of Education			<u>1,959,359</u>	<u>-</u>	<u>2,012,507</u>	<u>-</u>
<b><u>Corporation for National and Community Service</u></b>						
Passed through the Ohio Department of Education						
Learn and Serve Grant	SU-S2-03 SU-S2-04	94.004	15,000	-	15,381	-
Totals			<u>\$ 2,337,536</u>	<u>\$ 61,460</u>	<u>\$ 2,391,047</u>	<u>\$ 61,460</u>

The accompanying notes are an integral part of this schedule.

**Mount Vernon City School District**  
Notes to the Schedule of Federal Awards Receipts and Expenditures  
Year Ended June 30, 2004

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES**

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**FOOD DISTRIBUTION**

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule of Expenditures at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.



## **Report On Compliance And On Internal Control Required By Government Auditing Standards**

Board of Education  
Mount Vernon City School District  
302 Martinsburg Road  
Mount Vernon, Ohio 43050

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio (the District) as of and for the year ended June 30, 2004 and have issued our report thereon dated December 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
1-800-523-6611  
FAX (740) 345-5635

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

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio  
December 9, 2004



**Report On Compliance With Requirements Applicable To Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Board of Education  
Mount Vernon City School District  
302 Martinsburg Road  
Mount Vernon, Ohio 43050

**Compliance**

We have audited the compliance of Mount Vernon City School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
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FAX (740) 345-5635

## **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Wilson, Sherman & Snow, Inc.*

Newark, Ohio  
December 9, 2004

**Mount Vernon City School District  
Knox County**

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505

June 30, 2004

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster - 84.027 and 84.173 Nutrition Cluster – 10.550, 10.553, 10.555, 10.556, and 10.559
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None were noted

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None were noted





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Betty Montgomery**

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**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  
JANUARY 13, 2005**