

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
SINGLE AUDIT
JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Mount Vernon City School District
Mount Vernon, Ohio

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, 2004 through June 30, 2005. 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

February 9, 2006

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**Mount Vernon City School District
Knox County**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES	11
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET – GOVERNMENTAL FUNDS	12
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	13
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	14
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	15
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP BASIS) AND ACTUAL – GENERAL FUND	16
STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND	17
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND	18
STATEMENT OF CASH FLOWS – PROPRIETARY FUND	19
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUNDS	20
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUND	21
NOTES TO THE BASIC FINANCIAL STATEMENTS	22

**Mount Vernon City School District
Knox County**

TABLE OF CONTENTS
(Continued)

SUPPLEMENTAL DATA:

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES	47
NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES	48
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH <i>OMB CIRCULAR A-133</i>	51
SCHEDULE OF FINDINGS	53



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

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio (the School District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Mount Vernon City School District, Knox County as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 4 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, causing a restatement of beginning fund balances. In addition, as disclosed in Note 4, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure*. The implementation of GASB 40 had no significant impact on the School District's financial position.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Management's Discussion and Analysis on pages 3 through 9 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 School 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, Sherman & Snow, Inc.

Newark, Ohio
December 16, 2005

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

The discussion and analysis of the Mount Vernon City School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- In total, net assets decreased \$3,255,251.
- General revenues and a special item accounted for \$26,971,828, or 84% of all revenues. Program specific revenues in the form of charges for services and sales, operating and capital grants, and contributions accounted for \$5,221,043, or 16% of total revenues of \$32,192,871.
- The School District's major funds included the General Fund and the Elementary Building Fund. The General Fund had \$26,837,481 in revenues and other financing sources and \$29,706,563 in expenditures and other financing uses. The General Fund's balance decreased \$2,869,082 from the prior fiscal year. The Elementary Building Fund had \$606,607 in revenues and other financing sources and \$4,942,583 in expenditures. The Elementary Building Fund's balance decreased \$4,335,976 from the prior fiscal year.
- The revenue generated from the nonmajor Bond Retirement Debt Service Fund is used to pay for the current portion of bonded debt.
- The School 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 School 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds, with all other non-major funds presented in total in a single column.

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

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 School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" 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.

These two statements report the School 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 School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School 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 School District discloses a single type of activity:

Governmental Activities - All of the School 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 School District's major funds. While the School District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the School District's most significant funds. The General Fund and the Elementary Building Fund are the School District's most significant major governmental funds.

Governmental Funds - Most of the School 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 the modified accrual basis of 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 School 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

The District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2005. A comparative analysis of fiscal year 2005 to 2004 follows:

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$32,763,005	\$38,442,869
Capital Assets, Net	22,115,403	18,228,262
Total Assets	<u>54,878,408</u>	<u>56,671,131</u>
<u>Liabilities:</u>		
Current and Other Liabilities	16,294,087	14,703,719
Long-Term Liabilities	10,393,468	10,521,308
Total Liabilities	<u>26,687,555</u>	<u>25,225,027</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	13,011,231	8,960,474
Restricted	4,767,125	8,671,032
Unrestricted	10,412,497	13,814,598
Total	<u>\$28,190,853</u>	<u>\$31,446,104</u>

Total assets decreased \$1,792,723. The majority of the decrease was due to the use of cash and equivalents to fund the School District's new elementary building thereby creating an increase in capital assets of \$3,887,141.

Total liabilities increased \$1,462,528. There was a decrease of \$127,840 net reduction of long-term liabilities and an increase of \$1,590,368 in current and other liabilities.

The significant changes in the long-term liabilities is a result of the School District refunding the 1993 and 1994 General Obligation Bonds with 2005 General Obligation Bonds, reducing the net obligation by \$315,708. In addition, payment made on the Energy Conservation Bonds totaled \$62,722, capital leases were renegotiated and extended for a net increase of \$214,814, and sick and leave benefits had a net increase of \$35,776. The increase in unearned revenue is directly related to the increase in taxes receivable from increased tax monies being available from the County Auditor at June 30, 2005.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

Table 2 reflects the changes in net assets for fiscal year 2005. A comparative analysis of fiscal year 2005 to 2004 follows:

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$1,803,156	\$1,905,472
Operating and Capital Grants and Contributions	3,417,887	2,465,237
Total Program Revenues	5,221,043	4,370,709
General Revenues:		
Property Taxes	12,732,375	17,957,053
Grants and Entitlements	13,177,925	13,998,291
Interest	397,748	227,615
Gifts and Donations	24,001	22,146
Miscellaneous	483,081	463,709
Total General Revenues	26,815,130	32,668,814
Special Item	156,698	-
Total Revenues	32,192,871	37,039,523
<u>Expenses:</u>		
Instruction	21,185,394	19,187,133
Support Services:	0	
Pupils	1,543,461	1,434,655
Instructional Staff	1,976,421	1,791,127
Board of Education	48,119	70
Administration	2,207,055	2,330,666
Fiscal	2,056,264	1,630,136
Business	202,441	192,416
Operation and Maintenance of Plant	2,620,311	3,271,767
Pupil Transportation	1,230,330	1,035,723
Central	19,699	20,048
Non-Instructional	1,328,808	1,286,210
Extracurricular Activities	633,550	655,938
Interest and Fiscal Charges	396,269	589,312
Total Expenses	35,448,122	33,425,201
Change in Net Assets	(\$3,255,251)	\$3,614,322

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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

Our School District, which is dependent on property taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 40 percent of revenues for governmental activities for the School District in fiscal year 2005.

Over the past several years the School District has experienced a significant amount of growth. The School 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 \$6,524,695 from fiscal year 2004 to fiscal year 2005.

Instruction expenses comprise approximately 60 percent of governmental program expenses, and support services make up approximately 34 percent of the program expenses of the School District.

Operating and capital grants and contributions increased \$916,530. This increase is due to a direct increase in state foundation from fiscal year 2004 to fiscal year 2005. Tax revenue decreased \$5,224,678 and was attributed to the collection of delinquent taxes and the reappraisal of real property in fiscal year 2004.

Governmental Activities

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

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Instruction	\$21,185,394	\$17,524,238	\$19,187,133	\$15,832,566
Support Services:				
Pupils	1,543,461	1,486,559	1,434,655	1,355,069
Instructional Staff	1,976,421	1,972,011	1,791,127	1,780,041
Board of Education	48,119	48,119	70	70
Administration	2,207,055	2,202,668	2,330,666	2,330,666
Fiscal	2,056,264	2,043,687	1,630,136	1,630,136
Business	202,441	163,085	192,416	192,416
Operation and Maintenance of Plant	2,620,311	2,593,311	3,271,767	3,271,767
Pupil Transportation	1,230,330	1,230,330	1,035,723	1,035,723
Central	19,699	19,699	20,048	20,048
Non-Instructional	1,328,808	33,495	1,286,210	500,717
Extracurricular Activities	633,550	513,608	655,938	515,961
Interest and Fiscal Charges	396,269	396,269	589,312	589,312
Total Expenses	\$35,448,122	\$30,227,079	\$33,425,201	\$29,054,492

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 81 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. It is apparent that the community, as a whole, is the primary support for the School District's students.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

The District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$42,037,876 and expenditures of \$48,676,217. The net negative change of \$6,638,341 in fund balance for the year indicates the District's ability to meet current costs. An analysis of the School District's major funds can be found on page 3.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, cash disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the School District amended its General Fund budget as needed.

Final expenditures were budgeted at \$30,399,554 while actual expenditures and other financing uses were \$30,301,445. The \$98,109 difference is primarily due to a conservative "worst case scenario" approach. The School District appropriates total estimated resources available regardless of need. Original estimated receipts of \$27,495,551 were reduced to \$18,921,606 based on changes in the actual amount of school foundation money expected to be received. The net change in fund balance was \$2,261,414.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$22,115,403 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

Debt

At June 30, 2005, the School District had \$8,324,292 in Bond Retirement for general obligation bonds to build the Mount Vernon Middle School. A bond was issued for a twenty-five year period, with final maturity on December 1 2019. This bond is being retired through the Bond Retirement Fund.

During fiscal year 2005, the School District issued \$8,315,000 of general obligation bonds for a current refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The total debt service payments were reduced by \$1,660,000 and the present value of this reduction resulted in an economic gain of \$1,446,883.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2005**

At June 30, 2005, the School District's overall legal debt margin was \$38,105,820, with an un-voted debt margin of \$515,787.

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

Current Issues

The School District continues to receive strong support from the residents. The School District relies heavily on its local property taxpayers. The last operating levy, a 3 mill renewal, passed by the residents of the School District was in November 2005 and is expected to generate \$1,625,000 over the next five years.

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

The School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2005. How the legislature plans to fund education programs during a weakened economy remains a concern.

The School District current five-year forecast is projecting deficit spending at the end of fiscal years 2009 and 2010 of (\$3,055,365) and (\$9,620,581), respectively, with positive ending cash balances for fiscal years 2006 through 2008 of \$8,429,532, \$6,144,874, and \$1,955,882, respectively.

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

Along with the challenges set forth for the School District to ensure positive operating cash flow within the General fund, the need for improved and new school facilities is ever pertinent. However, the School District was unsuccessful in passing a local levy to meet the requirements set forth by the Ohio School Facilities Commission to begin construction. The School District will evaluate the need to place future levies on the ballot related to the Ohio School Facilities Program.

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 School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Nancy L. Sinclair, Treasurer, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050-4252.

Mount Vernon City School District
Statement of Net Assets
June 30, 2005

		Governmental Activities
<hr/>		
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$	15,524,935
Materials and Supplies Inventory		23,915
Accounts Receivable		3,989
Intergovernmental Receivable		524,826
Taxes Receivable		16,685,340
Non-Depreciable Capital Assets		6,867,704
Depreciable Capital Assets, net		<u>15,247,699</u>
Total Assets		<u><u>54,878,408</u></u>
LIABILITIES:		
Accounts Payable		294,029
Accrued Wages and Benefits		2,530,380
Contracts Payable		37,014
Intergovernmental Payable		680,862
Unearned Revenue		12,211,614
Claims Payable		529,659
Matured Severance Payable		10,529
Long-Term Liabilities:		
Due Within One Year		561,468
Due in More Than One Year		<u>9,832,000</u>
Total Liabilities		<u><u>26,687,555</u></u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		13,011,231
Restricted for Debt Service		1,490,143
Restricted for Capital Projects		2,527,839
Restricted for Other Purposes		749,143
Unrestricted		<u>10,412,497</u>
Total Net Assets	\$	<u><u>28,190,853</u></u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	Program Revenues			Capital Grants and Contributions	Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:					
Instruction:					
Regular	\$ 16,543,197	\$ 1,090,413	\$ 582,771	\$ 36,120	\$ (14,833,893)
Special	4,233,852	-	1,951,852	-	(2,282,000)
Vocational	408,345	-	-	-	(408,345)
Support Services:					
Pupils	1,543,461	4,049	52,853	-	(1,486,559)
Instructional Staff	1,976,421	-	4,410	-	(1,972,011)
Board of Education	48,119	-	-	-	(48,119)
Administration	2,207,055	-	4,387	-	(2,202,668)
Fiscal	2,056,264	-	12,577	-	(2,043,687)
Business	202,441	39,356	-	-	(163,085)
Operation and Maintenance of Plant	2,620,311	-	27,000	-	(2,593,311)
Pupil Transportation	1,230,330	-	-	-	(1,230,330)
Central	19,699	-	-	-	(19,699)
Operation of Non-Instructional Services	1,328,808	549,396	745,917	-	(33,495)
Extracurricular Activities	633,550	119,942	-	-	(513,608)
Interest and Fiscal Charges	396,269	-	-	-	(396,269)
Total Governmental Activities	\$ 35,448,122	\$ 1,803,156	\$ 3,381,767	\$ 36,120	\$ (30,227,079)
General Revenues:					
Property Taxes Levied for:					
General Purposes				\$	11,059,863
Capital Outlay					836,256
Debt Service					836,256
Grants and Entitlements not Restricted to Specific Programs					13,177,925
Gifts and Donations					24,001
Investment Earnings					397,748
Miscellaneous					483,081
Total General Revenues					26,815,130
Special Item: Gain on Forgiveness of Capital Lease Obligation					156,698
Change in Net Assets					(3,255,251)
Net Assets Beginning of Year					31,446,104
Net Assets End of Year				\$	28,190,853

See Accompanying Notes to Basic Financial Statements

Mount Vernon City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Elementary Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 10,157,625	\$ 281,950	\$ 3,912,771	\$ 14,352,346
Materials and Supplies Inventory	-	-	23,915	23,915
Accounts Receivable	880	-	3,109	3,989
Interfund Receivable	249,615	-	-	249,615
Intergovernmental Receivable	-	-	524,826	524,826
Taxes Receivable	14,626,454	-	2,058,886	16,685,340
Total Assets	\$ 25,034,574	\$ 281,950	\$ 6,523,507	\$ 31,840,031
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 224,794	\$ -	\$ 69,235	\$ 294,029
Accrued Wages and Benefits	2,364,147	-	166,233	2,530,380
Contracts Payable	-	37,014	-	37,014
Interfund Payable	-	-	249,615	249,615
Intergovernmental Payable	651,418	-	29,091	680,509
Deferred Revenue	11,260,124	-	1,565,630	12,825,754
Matured Severance Payable	10,529	-	-	10,529
Total Liabilities	14,511,012	37,014	2,079,804	16,627,830
EQUITY:				
Fund Balances:				
Reserved:				
Reserved for Encumbrances	769,438	205,588	733,444	1,708,470
Reserved for Advances	249,615	-	-	249,615
Reserved for Property Taxes	3,366,330	-	493,256	3,859,586
Unreserved, Undesignated, Reported in:				
General Fund	6,138,179	-	-	6,138,179
Special Revenue Funds	-	-	649,890	649,890
Debt Service Funds	-	-	1,204,272	1,204,272
Capital Projects Funds	-	39,348	1,362,841	1,402,189
Total Fund Balances	10,523,562	244,936	4,443,703	15,212,201
Total Liabilities and Fund Balances	\$ 25,034,574	\$ 281,950	\$ 6,523,507	\$ 31,840,031

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, 2005

Total Governmental Fund Balances	\$	15,212,201
<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.		22,115,403
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Taxes Receivable		614,140
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets.		642,577
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds:		
General Obligation Bonds Payable	(8,697,239)	
Compensated Absences Payable	(1,289,296)	
Capital Leases Payable	(406,933)	
		(10,393,468)
Net Assets of Governmental Activities	\$	28,190,853

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, 2005

	<u>General Fund</u>	<u>Elementary Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 11,577,030	\$ -	\$ 1,728,152	\$ 13,305,182
Intergovernmental	13,062,431	-	3,565,031	16,627,462
Interest	274,815	33,607	66,687	375,109
Tuition and Fees	983,193	-	90,969	1,074,162
Rent	16,251	-	300	16,551
Extracurricular Activities	-	-	163,047	163,047
Gifts and Donations	716	-	23,285	24,001
Customer Sales and Services	-	-	549,396	549,396
Miscellaneous	477,293	-	5,036	482,329
Total Revenues	<u>26,391,729</u>	<u>33,607</u>	<u>6,191,903</u>	<u>32,617,239</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	14,884,477	-	510,245	15,394,722
Special	2,509,674	-	1,121,831	3,631,505
Vocational	296,526	-	-	296,526
Support Services:				
Pupils	1,168,337	-	356,112	1,524,449
Instructional Staff	1,468,228	-	490,916	1,959,144
Board of Education	48,119	-	-	48,119
Administration	2,081,891	-	93,622	2,175,513
Fiscal	1,929,988	-	70,801	2,000,789
Business	178,603	-	22,440	201,043
Operation and Maintenance of Plant	2,491,813	-	48,937	2,540,750
Pupil Transportation	980,581	-	153,458	1,134,039
Central	19,699	-	-	19,699
Operation of Non-Instructional Services	(13,833)	-	1,364,500	1,350,667
Extracurricular Activities	484,087	-	129,498	613,585
Capital Outlay	445,000	4,942,583	575,012	5,962,595
Debt Service:				
Principal	73,488	-	387,722	461,210
Interest	-	-	386,977	386,977
Total Expenditures	<u>29,046,678</u>	<u>4,942,583</u>	<u>5,712,071</u>	<u>39,701,332</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,654,949)</u>	<u>(4,908,976)</u>	<u>479,832</u>	<u>(7,084,093)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	573,000	86,885	659,885
Proceeds from Sale of Capital Assets	752	-	-	752
Proceeds from Sale of Refunding Bonds	-	-	8,315,000	8,315,000
Principal Payment to Refunding Bonds Escrow Agent	-	-	(8,315,000)	(8,315,000)
Inception of Capital Lease	445,000	-	-	445,000
Transfers Out	(659,885)	-	-	(659,885)
Total Other Financing Sources and Uses	<u>(214,133)</u>	<u>573,000</u>	<u>86,885</u>	<u>445,752</u>
Net Change in Fund Balances	(2,869,082)	(4,335,976)	566,717	(6,638,341)
Fund Balances at Beginning of Year (Restated)	13,392,644	4,580,912	3,876,986	21,850,542
Fund Balances at End of Year	<u>\$ 10,523,562</u>	<u>\$ 244,936</u>	<u>\$ 4,443,703</u>	<u>\$ 15,212,201</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 of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (6,638,341)

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	4,834,947	
Depreciation	(937,086)	
		3,897,861

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins and donations) is to decrease net assets. (10,720)

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	(572,807)	
		(604,457)

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

Bond Principal	387,722	
Capital Leases	230,186	
		617,908

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest is accrued, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on capital appreciation bonds. (9,292)

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets. (445,000)

Internal service funds are used by management to charge the costs of insurance to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (27,434)

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

Compensated Absences Payable	(35,776)	
		(35,776)

Change in Net Assets of Governmental Activities \$ (3,255,251)

See Accompanying Notes to Basic Financial Statements

Mount Vernon City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 13,137,726	\$ 13,137,726	\$ 13,137,726	-
Intergovernmental	12,545,675	3,971,730	13,062,431	9,090,701
Interest	236,141	236,141	263,841	27,700
Tuition and Fees	983,257	983,257	983,257	-
Rent	16,251	16,251	16,251	-
Gifts and Donations	716	716	716	-
Miscellaneous	477,408	477,408	477,432	24
Total Revenues	<u>27,397,174</u>	<u>18,823,229</u>	<u>27,941,654</u>	<u>9,118,425</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	14,900,181	14,957,383	14,957,383	-
Special	2,233,141	2,656,765	2,656,765	-
Vocational	300,775	300,775	299,555	1,220
Support Services:				
Pupils	1,182,300	1,182,300	1,140,366	41,934
Instructional Staff	1,627,213	1,550,254	1,550,254	-
Board of Education	79,360	79,360	52,099	27,261
Administration	2,267,458	2,139,577	2,139,577	-
Fiscal	1,623,348	2,071,172	1,941,442	129,730
Business	190,658	190,658	178,566	12,092
Operation and Maintenance of Plant	2,930,238	2,930,338	2,922,280	8,058
Pupil Transportation	1,139,333	1,139,333	1,087,123	52,210
Central	27,300	27,300	19,699	7,601
Extracurricular Activities	491,250	491,241	470,992	20,249
Total Expenditures	<u>28,992,555</u>	<u>29,716,456</u>	<u>29,416,101</u>	<u>300,355</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,595,381)</u>	<u>(10,893,227)</u>	<u>(1,474,447)</u>	<u>9,418,780</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets	752	752	752	-
Refund of Prior Year Expenditures	1,449	1,449	1,449	-
Advances In	85,202	85,202	85,202	-
Transfers Out	(359,045)	(683,098)	(659,885)	23,213
Advances Out	-	-	(225,459)	(225,459)
Other Financing Sources	10,974	10,974	10,974	-
Total Other Financing Sources and Uses	<u>(260,668)</u>	<u>(584,721)</u>	<u>(786,967)</u>	<u>(202,246)</u>
Net Change in Fund Balance	(1,856,049)	(11,477,948)	(2,261,414)	9,216,534
Fund Balance at Beginning of Year	10,729,987	10,729,987	10,729,987	-
Prior Year Encumbrances Appropriated	747,961	747,961	747,961	-
Fund Balance at End of Year	<u>\$ 9,621,899</u>	<u>\$ -</u>	<u>\$ 9,216,534</u>	<u>\$ 9,216,534</u>

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2005**

		Governmental Activities Internal Service Fund
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$	<u>1,172,589</u>
Total Assets		<u>1,172,589</u>
LIABILITIES:		
Intergovernmental Payable		353
Claims Payable		<u>529,659</u>
Total Liabilities		<u>530,012</u>
NET ASSETS:		
Unrestricted		<u>642,577</u>
Total Net Assets	\$	<u><u>642,577</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, 2005

		Governmental Activities Internal Service Fund
		<u> </u>
OPERATING REVENUES:		
Charges for Services	\$	3,001,160
Total Operating Revenues		<u>3,001,160</u>
 OPERATING EXPENSES:		
Salaries		12,784
Fringe Benefits		173,177
Purchased Services		2,860,192
Materials and Supplies		1,100
Other		3,980
Total Operating Expenses		<u>3,051,233</u>
 Operating (Loss)		 <u>(50,073)</u>
 NON-OPERATING REVENUES (EXPENSES):		
Interest		22,639
Total Non-Operating Revenues		<u>22,639</u>
 Net Change in Net Assets		 (27,434)
 Net Assets at Beginning of Year		 <u>670,011</u>
Net Assets at End of Year	\$	<u><u>642,577</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, 2005**

		Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from Charges for Services	\$	3,001,160
Cash Payments for Employee Services		(12,784)
Cash Payments for Employee Benefits		(172,824)
Cash Payments for Purchase Services		(2,805,018)
Cash Payments to Suppliers for Goods and Service		(1,100)
Cash Payments for Other		(3,980)
Net Cash Provided by Operating Activities		5,454
 Cash Flows from Investing Activities:		
Interest Received		22,639
Net Cash Provided by Investing Activities		22,639
Net Increase (Decrease) in Cash and Cash Equivalents		28,093
Cash and Cash Equivalents at Beginning of Year		1,144,496
Cash and Cash Equivalents at End of Year	\$	1,172,589
 Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Operating (Loss)	\$	(50,073)
 Changes in Assets and Liabilities:		
Intergovernmental Payable		353
Claims Payable		55,174
Net Cash Provided by Operating Activities	\$	5,454

See Accompanying Notes to Basic Financial Statements

Mount Vernon City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>2,791</u>	\$ <u>45,977</u>
Total Assets	<u>2,791</u>	<u>45,977</u>
LIABILITIES:		
Undistributed Monies	<u>-</u>	<u>45,977</u>
Total Liabilities	<u>-</u>	<u>\$ 45,977</u>
NET ASSETS:		
Held in Trust for Scholarships	<u>2,791</u>	
Total Net Assets	<u>\$ 2,791</u>	

See Accompanying Notes to Basic Financial Statements

**Mount Vernon City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ <u>56</u>
Total Additions	<u>56</u>
Net Assets Beginning of Year	<u>2,735</u>
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, 2005**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The School District was established in the 1870s through the consolidation of existing land areas and school districts. The School 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 School District is the 93rd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 157 non-certificated employees and 298 certificated full-time teaching personnel who provide services to 4,217 students and other community members. The School 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 School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Mount Vernon City School District, this includes general operations, food service, and student related activities of the School District.

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

The following activities are included within the reporting entity:

Parochial Schools - Within the School 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 School District, as directed by the parochial schools. The activity of these State monies by the School District is reflected in a special revenue fund for financial reporting purposes.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

The School 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 17 and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 School District's accounting policies.

A. Basis of Presentation

The School 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 School 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 School 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 School 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 School 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 School District.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

Fund Financial Statements

During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental and proprietary 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 School 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 School 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 School District are grouped into the categories governmental and fiduciary.

Governmental Funds

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

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 School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust, which accounts for a program that provides assistance to needy students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund is used to account for student managed activities.

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 School District are included on the statement of net assets.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. 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 School District, available means expected to be received within sixty days of fiscal year end.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

Nonexchange transactions, in which the School 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 School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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.

Unearned 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenditures/Expenses

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School 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 2005, investments were limited to STAR Ohio. All investments of the School 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 School District policy. Total investment earnings during fiscal year 2005 totaled \$397,748, with \$274,815 credited to the General Fund.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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 School 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 School District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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, 2005.

F. Inventory

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

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District's capitalization threshold is one thousand dollars. The School 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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

H. Interfund Balances

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

I. Compensated Absences

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

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

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 School District will compensate the employees for the benefits through paid time off or some other means. The School 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 School 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 School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees, except certified employees, after 20 years of current service with the School 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 School District records a liability for certified employees after 15 years of current service and at least 40 years of age.

J. Accrued Liabilities and Long-Term Obligations

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

K. Net Assets

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

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

L. Fund Balance Reserves

The School 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, advances, and encumbrances.

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

M. Interfund Transactions

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

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

N. Estimates

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. No such transactions occurred during fiscal year 2005. Special items are transactions or events that are within the control of the School District and that are either unusual in nature or infrequent in occurrence. The School District recognized a special item of \$156,698 from the forgiveness of a capital lease obligation.

3. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
General Fund	
	General
GAAP Basis	(\$2,869,082)
Increase (Decrease) Due To:	
Revenue Accruals	1,549,925
Expenditure Accruals	621,664
Other Financing Sources	(572,834)
Encumbrances Outstanding at Year End (Budget Basis)	(991,087)
Budget Basis	(\$2,261,414)

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

4. ACCOUNTABILITY

A. Restatement of Fund Balances

The School District has implemented GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. This Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of this Bulletin had the following effect on the fund balance of the General fund as previously reported at June 30, 2004:

Fund Balance, June 30, 2004	\$ 13,606,181
GASB Technical Bulletin No. 2004-02	<u>(213,537)</u>
Restated Fund Balance, June 30, 2004	\$ <u>13,392,644</u>

B. Change in Accounting Principle

The School District implemented GASB Statement No. 40, *Deposits and Investment Disclosures*, which amends GASB Statement No. 3, *Deposits and Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. Implementation of this GASB had no impact on the School District's financial position or results of operations.

5. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At the end of the fiscal year, the School District had a bank balance of \$428,854 and a carrying amount of \$231,659. Of that balance, \$200,000 was covered by Federal Deposit Insurance and \$228,854 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

Investments

As of June 30, 2005, the School District had \$15,342,044 invested in STAR Ohio.

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

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

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

Reconciliation of Cash and Investments to the Statement of Net Assets

Investment - STAR Ohio	\$ 15,342,044
Carrying amounts of deposits	231,659
Fiduciary Fund Cash and Investments	<u>(48,768)</u>
Total Governmental Activities Equity in Pooled Cash	\$ <u>15,524,935</u>

6. 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 School 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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.

The School District receives property taxes from Knox County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 are available to finance fiscal year 2005 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, 2005. 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, 2005, was \$3,366,330 in the General Fund, \$246,628 in the Bond Retirement Debt Service Fund and \$246,628 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$405,814,930	80%	\$413,556,980	80%
Public Utility	20,641,430	4%	20,932,180	4%
Tangible Personal Property	82,805,830	16%	81,297,726	16%
Total Assessed Value	<u>\$509,262,190</u>	<u>100%</u>	<u>\$515,786,886</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$35.43		\$35.29	

7. RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes, accounts (rent and student fees), intergovernmental, and interfund 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$65,299
Summer Intervention	32,206
Title VI-B	363,675
Title I	31,684
Preschool Grant	916
Title II-A	30,165
Title V	881
Total Governmental Activities	\$524,826

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 325,664	\$ -	\$ -	\$ 325,664
Construction in Progress	2,698,908	3,843,132	-	6,542,040
Total Nondepreciable Capital Assets	3,024,572	3,843,132	-	6,867,704
Depreciable Capital Assets				
Land Improvements	348,907	-	-	348,907
Buildings and Building Improvements	20,634,119	-	-	20,634,119
Furniture, Fixtures, and Equipment	5,819,758	991,815	212,846	6,598,727
Vehicles	1,177,300	-	-	1,177,300
Total Depreciable Capital Assets	27,980,084	991,815	212,846	28,759,053
Total Capital Assets	31,004,656	4,834,947	212,846	35,626,757
Less Accumulated Depreciation				
Land Improvements	312,420	2,925	-	315,345
Buildings and Building Improvements	7,090,071	402,496	-	7,492,567
Furniture, Fixtures, and Equipment	4,515,628	467,113	202,126	4,780,615
Vehicles	858,275	64,552	-	922,827
Total Accumulated Depreciation	12,776,394	937,086	202,126	13,511,354
Depreciable Capital Assets, Net	15,203,690	54,729	10,720	15,247,699
Governmental Activities Capital Assets, Net	\$18,228,262	\$3,897,861	\$10,720	\$22,115,403

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$367,305
Special	55,317
Vocational	58,520
Support Services:	
Instructional Staff	63,156
Administration	59,441
Fiscal	53,938
Operation and Maintenance of Plant	90,961
Pupil Transportation	92,204
Operations of Non-Instruction	13,639
Extracurricular	65,330
Capital Outlay	17,275
Total Depreciation Expense	\$937,086

9. INTERFUND TRANSACTIONS

A. Interfund balances consisted of the following at June 30, 2005, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$249,615

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

B. Interfund transfers for the fiscal year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Elementary Building Fund from:	
General Fund	\$573,000
Transfers to Nonmajor Governmental Funds from:	
General Fund	86,885
Total Governmental Funds	\$659,885

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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

10. RISK MANAGEMENT

The School 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 2005, the School 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 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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, 2005**

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the School District. The claims liability of \$529,659 reported in the Internal Service Fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2004	\$313,517	\$3,009,167	\$2,848,199	\$474,485
2005	\$474,485	\$2,860,192	\$2,805,018	\$529,659

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$529,918, \$489,641, and \$440,050, respectively; which were equal to the required contributions for each year.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,230,744, \$2,118,414, and \$1,937,858, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$367,856.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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, 2005, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

12. POSTEMPLOYMENT BENEFITS

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 latest information available), the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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 4.91%. 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 year 2004, the minimum pay has been established as \$24,500. 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

The portion of your employer contributions that was used to fund postemployment benefits can be determined by multiplying actual employer contributions times .35072, then adding the surcharge due as of June 30, 2004, as certified to your district by SERS.

13. EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Balance at 07/01/04	Additions	Deductions	Balance at 06/30/05	Amount Due in One Year
General Obligation Bonds – 94	\$ 8,640,000	\$ -	\$ 8,640,000	\$ -	\$ -
General Obligation Bonds – 05	-	8,324,292	-	8,324,292	415,000
Energy Conservation Loan	435,669	-	62,722	372,947	66,381
Long-Term Bonds & Loan	9,075,669	8,324,292	8,702,722	8,697,239	481,381
Capital Leases	192,119	445,000	230,186	406,933	80,087
Compensated Absences	1,253,520	1,289,296	1,253,520	1,289,296	-
Total Long-Term Obligations	\$10,521,308	\$10,076,588	\$10,186,428	\$10,393,468	\$561,468

General Obligation Bonds - In May 1994, the 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 Bond Retirement Debt Service Fund.

During fiscal year 2005, the School District issued \$8,315,000 of general obligation bonds for a current refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The total debt service payments were reduced by \$1,660,000 and the present value of this reduction resulted in an economic gain of \$1,446,883. A final payment of \$325,000 was made by the School District to retire the 1994 bonds which were paid from the Bond Retirement Fund.

General Obligation Bonds - The bonds were issued for a fourteen-year period with final maturity at December 2019, with an interest rate of 2.5% to 9.7%. The bonds will be retired from the Bond Retirement Debt Service Fund.

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

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

Principal and interest requirements to retire general obligation debt, including notes outstanding at June 30, 2005, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2006	\$481,381	\$307,261	\$788,642
2007	465,253	293,264	758,517
2008	479,350	279,167	758,517
2009	498,687	264,518	763,205
2010	553,276	248,216	801,492
2011-2015	2,424,292	1,320,996	3,745,288
2016-2020	3,795,000	461,950	4,256,950
Total	<u>\$8,697,239</u>	<u>\$3,175,372</u>	<u>\$11,872,611</u>

Accretion

Capital accretion bonds were issued with the General Obligation Bonds – 2005. These bonds were purchased at a discount at the time of issuance. At maturity, all compound interest is paid to the bond holder. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The fiscal year 2005 amount of accretion is \$9,292.

15. CAPITAL LEASES - LESSEE DISCLOSURE

The School 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 within the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$455,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Principal payments in fiscal year 2005 totaled \$73,488 in the governmental funds. In addition, \$156,698 was forgiven for total reductions of \$230,186.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

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, 2005.

Fiscal Year Ending June 30,	Amount
2006	\$105,108
2007	105,108
2008	105,108
2009	105,108
2010	52,554
Total	472,986
Less: Amount Representing Interest	(66,053)
Present Value of Net Minimum Lease Payments	\$406,933

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

The following cash basis information describes the change in the year-end set-asides amounts for textbooks and capital acquisition reserves. Disclosure of this information is required by state statute and is the following:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004 (Restated)	\$ (144,368)	\$ (629,200)
Current year set-aside requirement	557,563	557,563
Qualifying disbursements	(657,826)	(943,928)
Total	\$ (244,631)	\$(1,015,565)
Set-aside carried forward to fiscal year 2006	\$ (244,631)	\$ (629,200)

The School District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook reserve and this amount may be used to reduce the set-aside requirement for future fiscal years. The negative amount is therefore presented as being carried forward to the next fiscal year. During fiscal year 2000, the School District issued \$629,200 in energy conservation notes for various capital related improvements for School District facilities. These proceeds may be used to reduce the capital acquisition reserve for future years, and therefore the beginning set-aside balance has been restated to reflect this balance. The negative amount is therefore presented as being carried forward to next fiscal year.

17. 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.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

The School District paid TRECA \$80,014 for services in fiscal year 2005. 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.

18. INSURANCE PURCHASING POOL

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

19. 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**Notes to the Basic Financial Statements
June 30, 2005**

20. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

There are currently no matters in litigation with the School District as defendant. However, the School District will receive a payment of \$850,000 for claims of a defective roof against a contractor and keep the balance of the contract sum, \$165,000, and earned interest of \$35,000.

21. CONTRACTUAL COMMITMENTS

As of June 30, 2005, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
MKC Associates	\$5,000
Martin	9,341
Universal Refrigeration	39,598
Ben D. Imhoff, Inc.	180,573
Knox Electric	167,010
Helbling's Supply, Inc.	4,501
Total	<u>\$406,023</u>

22. SUBSEQUENT EVENT

On October 3, 2005, the School District sold real estate known as the Chestnut Street Building to the Knox County Commissioners for \$137,500.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
For the fiscal year ended June 30, 2005**

Federal Grantor/ Pass thru Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$ -	\$ 58,626	\$ -	\$ 58,626
School Breakfast Program	05-PU-04,05	10.553	86,366	-	174,908	-
National School Lunch Program	LL-P4,P1-04,05	10.555	384,606	-	296,518	-
Special Milk Program for Children	02-PU-04,05	10.556	4,179	-	4,179	-
Summer Food Service	23,24-PU-04	10.559	17,640	-	17,640	-
<i>Total Child Nutrition Cluster:</i>			<u>492,791</u>	<u>58,626</u>	<u>493,245</u>	<u>58,626</u>
Total U.S. Department of Agricultur			<u>492,791</u>	<u>58,626</u>	<u>493,245</u>	<u>58,626</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
<i>Special Education Cluster</i>						
Special Education-Grants to States	6B-SF-04,05	84.027	645,994	-	888,527	-
Preschool grant	PG-S1-05	84.173	37,717	-	38,598	-
<i>Total Special Education Cluster</i>			<u>683,711</u>	<u>-</u>	<u>927,125</u>	<u>-</u>
Title I Grants to Local Educational Agencies	C1-S1-04,05	84.010	981,630	-	893,874	-
Safe and Drug Free Schools and Communities-State Grants	DR-S1-05	84.186	25,011	-	23,973	-
State Grants for Innovative Programs	C2-S1-05	84.298	19,328	-	20,540	-
Education Technology State Grants	TJ-S1-05	84.318	21,720	-	20,735	-
Comprehensive School Reform Demonstration	RF-S1	84.332	18,316	-	13,444	-
Improving Teacher Quality State Grants	TR-S1-04,05	84.367	285,049	-	279,137	-
Total U.S. Department of Education			<u>2,034,765</u>	<u>-</u>	<u>2,178,828</u>	<u>-</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>						
<i>Passed through Ohio Department of Education:</i>						
Learn & Serve America - School and Community Based Programs	SV-S1-05	94.004	15,000	-	9,602	-
Total Corporation for National and Community Servi			<u>15,000</u>	<u>-</u>	<u>9,602</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,542,556</u>	<u>\$ 58,626</u>	<u>\$ 2,681,675</u>	<u>\$ 58,626</u>

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio (the School District) as of and for the fiscal year ended June 30, 2005 and have issued our report thereon dated December 16, 2005, wherein we noted, as disclosed in Note 4, the School District implemented GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses by Cost-Sharing Employers*. In addition, the School District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. 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 School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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*.

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 16, 2005



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

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

Compliance

We have audited the compliance of the Mount Vernon City School District, Knox County, Ohio, (the School District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 4, the School District implemented GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses by Cost-Sharing Employers*. In addition, the School District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The School District's major federal program is 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 School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School 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 School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

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

Internal Control over Compliance

The management of the School 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 School 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, Shuman & Snow, Inc.

Newark, Ohio
December 16, 2005

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505

June 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

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

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

June 30, 2005

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

None were noted

3. FINDINGS FOR FEDERAL AWARDS

None were noted



**Auditor of State
Betty Montgomery**

88 East Broad Street
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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2006**