

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

PATRICIA A. SHEFFIELD, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
Mechanicsburg Exempted Village School District
60 High Street
Mechanicsburg, Ohio 43044

We have reviewed the *Independent Auditor's Report* of the Mechanicsburg Exempted Village School District, Champaign County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. 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 Mechanicsburg Exempted Village School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 17, 2008

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**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Mechanicsburg Exempted Village School District
60 High St.
Mechanicsburg, Ohio 43044

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District, Champaign County Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Mechanicsburg Exempted Village School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mechanicsburg Exempted Village 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 financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Mechanicsburg Exempted Village School District, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3A, the Mechanicsburg Exempted Village School District has reported a prior period adjustment to properly report expenditures in the proper fund at June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2007, on our consideration of Mechanicsburg Exempted Village School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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.

Independent Auditor's Report
Mechanicsburg Exempted Village School District
Page Two

The management's discussion and analysis 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.

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

Julian & Grube, Inc.
December 11, 2007

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Mechanicsburg Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$1,588,985 which represents a 9.41% increase from 2006.
- General revenues accounted for \$7,883,544 in revenue or 81.50% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,790,073 or 18.50% of total revenues of \$9,673,617.
- The District had \$8,084,632 in expenses related to governmental activities; \$1,790,073 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,883,544 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, building fund and classroom facilities fund. The general fund had \$7,126,748 in revenues and other financing sources and \$6,484,929 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance increased \$641,819 from a deficit of \$2,715 to a positive balance of \$639,104.
- The District's bond retirement fund had \$541,274 in revenues and other financing sources and \$528,416 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance increased \$12,858 from \$229,748 to \$242,606.
- The District's building fund had \$323,040 in revenues and other financing sources and \$901,606 in expenditures. During fiscal year 2007, the building fund's fund balance decreased \$578,566 from \$931,702 to \$353,136.
- The District's classroom facilities fund had \$754,980 in revenues and \$9,363,758 in expenditures. During fiscal year 2007, the classroom facilities fund balance decreased \$8,608,778 from \$9,862,464 to \$1,253,686.

Using these Basic Financial Statements

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

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 8. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, bond retirement fund, building fund and classroom facilities fund.

Governmental Funds

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 8,056,380	\$ 16,072,689
Capital assets	<u>22,829,759</u>	<u>12,912,295</u>
Total assets	<u>30,886,139</u>	<u>28,984,984</u>
<u>Liabilities</u>		
Current liabilities	4,415,867	3,883,505
Long-term liabilities	<u>8,000,622</u>	<u>8,220,814</u>
Total liabilities	<u>12,416,489</u>	<u>12,104,319</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	15,410,712	9,808,947
Restricted	2,695,304	7,093,557
Unrestricted (deficit)	<u>363,634</u>	<u>(21,839)</u>
Total net assets	<u>\$ 18,469,650</u>	<u>\$ 16,880,665</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$18,469,650.

At year-end, capital assets represented 73.92% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$15,410,712. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

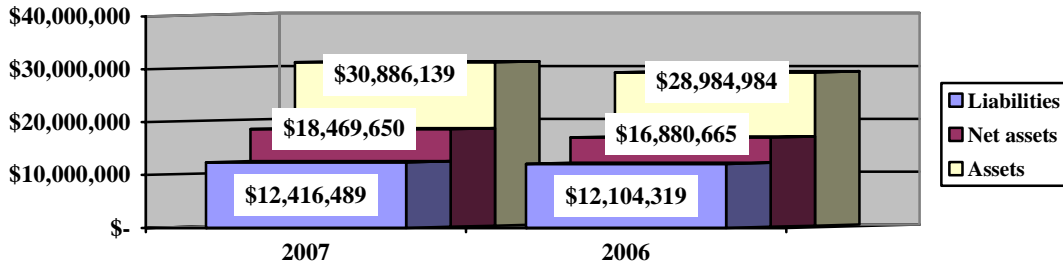
A portion of the District's net assets, \$2,695,304, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$363,634 may be used to meet the District's ongoing obligations to the students and creditors.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's assets, liabilities and net assets for fiscal years 2007 and 2006.

Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006.

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 808,656	\$ 833,183
Operating grants and contributions	975,520	492,256
Capital grants and contributions	5,897	12,015
General revenues:		
Property taxes	2,325,463	2,066,792
School district income taxes	669,276	400,049
Grants and entitlements	4,368,162	4,025,944
Investment earnings	460,531	493,906
Increase in FMV of investments	-	160,385
Other	60,112	56,117
Total revenues	9,673,617	8,540,647

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,284,211	\$ 3,546,459
Special	1,174,080	1,128,060
Vocational	69,769	137,884
Support services:		
Pupil	299,552	426,009
Instructional staff	213,096	288,725
Board of education	39,206	52,045
Administration	552,929	774,069
Fiscal	283,508	292,831
Operations and maintenance	654,206	666,215
Pupil transportation	532,522	583,965
Central	120,102	116,890
Food service operations	241,949	265,806
Operations of non-instructional services	4,892	556
Extracurricular activities	257,075	401,412
Interest and fiscal charges	<u>357,535</u>	<u>300,384</u>
Total expenses	<u>8,084,632</u>	<u>8,981,310</u>
Change in net assets	1,588,985	(440,663)
Net assets at beginning of year	<u>16,880,665</u>	<u>17,321,328</u>
Net assets at end of year	<u>\$ 18,469,650</u>	<u>\$ 16,880,665</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,588,985. Total governmental expenses of \$8,084,632 were offset by program revenues of \$1,790,073 and general revenues of \$7,883,544. Program revenues supported 22.14% of the total governmental expenses.

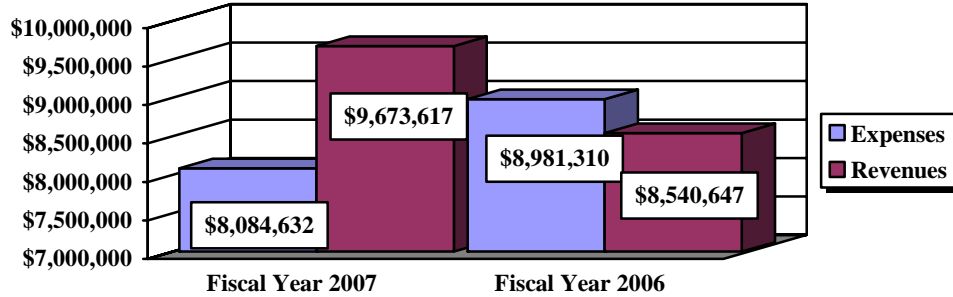
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 76.12% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,528,060 or 56.01% of total governmental expenses for fiscal 2007.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.



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

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 3,284,211	\$ 2,668,589	\$ 3,546,459	\$ 2,958,122
Special	1,174,080	495,017	1,128,060	817,938
Vocational	69,769	40,491	137,884	137,792
Support services:				
Pupil	299,552	272,778	426,009	385,530
Instructional staff	213,096	192,773	288,725	271,293
Board of education	39,206	39,206	52,045	52,045
Administration	552,929	538,949	774,069	760,980
Fiscal	283,508	282,059	292,831	292,831
Operations and maintenance	654,206	652,467	666,215	656,182
Pupil transportation	532,522	466,707	583,965	558,960
Central	120,102	119,573	116,890	108,570
Food service operations	241,949	1,772	265,806	11,447
Operations of non-instructional services	4,892	381	556	556
Extracurricular activities	257,075	166,262	401,412	331,226
Interest and fiscal charges	357,535	357,535	300,384	300,384
Total expenses	<u>\$ 8,084,632</u>	<u>\$ 6,294,559</u>	<u>\$ 8,981,310</u>	<u>\$ 7,643,856</u>

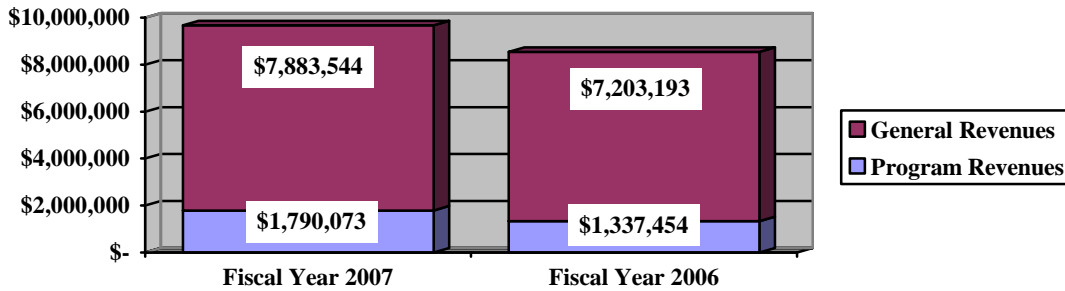
The dependence upon tax and other general revenues for governmental activities is apparent, 70.76% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.86%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue for fiscal year 2007.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,337,985, which is less than last year's total of \$11,861,507. The building and classroom facilities funds' fund balances have been restated as of June 30, 2006. See Note 3.A. for detail. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Restated Fund Balance (Deficit) <u>June 30, 2006</u>	Increase (Decrease)	Percentage Change
General	\$ 639,104	\$ (2,715)	\$ 641,819	23,639.74 %
Bond Retirement	242,606	229,748	12,858	5.60 %
Building	353,136	931,702	(578,566)	(62.10) %
Classroom Facilities	1,253,686	9,862,464	(8,608,778)	(87.29) %
Other Governmental	<u>849,453</u>	<u>840,308</u>	<u>9,145</u>	1.09 %
Total	<u>\$ 3,337,985</u>	<u>\$ 11,861,507</u>	<u>\$ (8,523,522)</u>	(71.86) %

General Fund

The District's general fund balance increased \$641,819. The increase in fund balance can be attributed to several items related to increasing revenues and decreasing expenditures. Revenues exceed expenditures for fiscal year 2007 by \$607,499.

Tax revenue increased 24.13% over the prior year due to the voted increase in the income tax rate for the District from .5% to 1.5%. Intergovernmental revenues increased 11.19% due to the personal property tax reimbursement received from the State. Earnings on investments increased due to increasing interest rates and the District having more funds to invest during the fiscal year. Instruction expenditures increased 3.53% due to increases in wages and benefits for the District's staff. Support services expenditures decreased 8.40% due to the District maintaining tighter control on support expenditures. Extracurricular expenditures decreased 41.79% due to the District not making any capital asset purchases for extracurricular activities. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,295,989	\$ 1,849,632	\$ 446,357	24.13 %
Tuition	310,235	334,667	(24,432)	(7.30) %
Earnings on investments	49,626	38,211	11,415	29.87 %
Intergovernmental	4,392,400	3,950,525	441,875	11.19 %
Other revenues	<u>14,272</u>	<u>33,826</u>	<u>(19,554)</u>	(57.81) %
Total	<u>\$ 7,062,522</u>	<u>\$ 6,206,861</u>	<u>\$ 855,661</u>	13.79 %
<u>Expenditures</u>				
Instruction	\$ 3,837,143	\$ 3,706,289	\$ 130,854	3.53 %
Support services	2,444,577	2,668,893	(224,316)	(8.40) %
Extracurricular activities	145,670	250,242	(104,572)	(41.79) %
Debt service	<u>27,633</u>	<u>26,197</u>	<u>1,436</u>	5.48 %
Total	<u>\$ 6,455,023</u>	<u>\$ 6,651,621</u>	<u>\$ (196,598)</u>	(2.96) %

Bond Retirement Fund

The District's bond retirement fund had \$541,274 in revenues and other financing sources and \$528,416 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance increased \$12,858 from \$229,748 to \$242,606.

Building Fund

The District's building fund had \$323,040 in revenues and other financing sources and \$901,606 in expenditures. During fiscal year 2007, the building fund's fund balance decreased \$578,566 from \$931,702 to \$353,136. The decrease in the building fund's fund balance can be attributed to the ongoing construction of new facilities.

Classroom Facilities Fund

The District's classroom facilities fund had \$754,980 in revenues and \$9,363,758 in expenditures. During fiscal year 2007, the classroom facilities fund balance decreased \$8,608,778 from \$9,862,464 to \$1,253,686. The decrease in the classroom facilities fund's fund balance can be attributed to the ongoing construction of new facilities.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,987,894 and final budgeted revenues and other financing sources were \$7,427,894. Actual revenues and other financing sources for fiscal 2007 was \$7,212,690. This represents a \$215,204 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,384,192 were increased to \$6,686,321 in the final appropriations. The actual budget basis expenditures for fiscal year 2007 totaled \$6,652,057 which was \$34,264 less than the final budget appropriations.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$22,829,759 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 292,500	\$ 292,500
Land improvements	589,067	615,611
Building and improvements	21,349,167	767,957
Furniture and equipment	429,585	631,761
Vehicles	169,440	191,534
Construction in progress	-	10,412,932
Total	<u>\$ 22,829,759</u>	<u>\$ 12,912,295</u>

The overall increase in capital assets of \$9,917,464 is due to capital outlays of \$10,265,364 exceeding depreciation expense of \$263,525 and disposals (net of depreciation) of \$84,375.

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

Debt Administration

At June 30, 2007, the District had \$7,421,373 in general obligation bonds and \$28,463 in notes outstanding. Of this total, \$203,463 is due within one year and \$7,246,373 is due in more than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2007	2006
General obligation bonds	\$ 7,421,373	\$ 7,560,873
General obligation notes	28,463	55,553
Total	<u>\$ 7,449,836</u>	<u>\$ 7,616,426</u>

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

Overall, the District is financially stable. As the preceding information shows, the District relies heavily upon property taxes, income taxes, and State support. A decrease in property tax revenues is anticipated in fiscal year 2007, due to changes enacted in the State's biennial budget bill effective July 1, 2005. Small growth in student population due to new housing will increase state support. An additional five year 1% income tax was passed by the voters in May 2006. The total income tax being collected beginning January 1, 2007 was 1-1/2%.

The challenge for the District's management is to continue to provide the resources necessary to meet student needs and be able to stay within the five-year forecast. The five-year forecast is utilized by management in order to effectively and efficiently manages the District's resources to their fullest.

The construction project undertaken through the Ohio School Facilities Commission (OSFC) is substantially complete. One new PreK-12 school costing \$24.2 million began construction in late summer 2005.

Since the District relies on the State for approximately 58% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational 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. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The general health of the economy could adversely affect the District as fuel prices continue to be unstable, also Ohio ranks fifth in the number of individual house foreclosures which could affect employment.

The current State budget provides for little or no growth in the State support of the school. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With approximately thirty-five percent of taxes paid to the District coming from business or industry, this could have a significant impact on the District's residential taxpayers.

Changes in State support with the enactment of the current state budget includes an elimination in the Cost of Doing Business Factor, the tax on general business and railroad property will be eliminated by 2009 and the tax on telephone and telecommunications property will be eliminated by 2011. Although the budget bill replaces the revenue lost due to phasing out the tax fully in the first five years, in the following seven years, the reimbursements are phased out.

The District's systems of budgeting and internal control are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Patricia A. Sheffield, Treasurer, Mechanicsburg Exempted Village School District, 60 High Street, Mechanicsburg, Ohio 43044.

**BASIC
FINANCIAL STATEMENTS**

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,439,194
Cash in segregated accounts.	542,995
Receivables:	
Taxes	2,807,426
Accounts	56,114
Intergovernmental	92,548
Accrued interest	1,994
Prepayments	2,372
Materials and supplies inventory	1,158
Unamortized bond issuance costs.	112,579
Capital assets:	
Land	292,500
Depreciable capital assets, net	22,537,259
Capital assets, net.	22,829,759
Total assets.	30,886,139
Liabilities:	
Accounts payable.	45,986
Contracts payable.	863,841
Retainage payable	542,995
Accrued wages and benefits	446,639
Pension obligation payable.	126,546
Intergovernmental payable	48,460
Tax anticipation note payable.	250,000
Accrued interest payable	35,154
Unearned revenue.	2,056,246
Long-term liabilities:	
Due within one year.	246,634
Due in more than one year.	7,753,988
Total liabilities	12,416,489
Net Assets:	
Invested in capital assets, net of related debt.	15,410,712
Restricted for:	
Capital projects	2,093,161
Debt service.	252,236
Classroom facilities maintenance.	131,767
State funded programs.	27,406
Federal funded programs.	99,646
Student activities.	66,696
Other purposes	24,392
Unrestricted	363,634
Total net assets	\$ 18,469,650

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 3,284,211	\$ 529,924	\$ 85,698	\$ -	\$ (2,668,589)
Special	1,174,080	-	679,063	-	(495,017)
Vocational	69,769	-	29,278	-	(40,491)
Support services:					
Pupil	299,552	197	26,577	-	(272,778)
Instructional staff	213,096	14,239	6,084	-	(192,773)
Board of education	39,206	-	-	-	(39,206)
Administration	552,929	10,085	3,895	-	(538,949)
Fiscal	283,508	-	1,449	-	(282,059)
Operations and maintenance	654,206	-	1,739	-	(652,467)
Pupil transportation	532,522	-	59,918	5,897	(466,707)
Central	120,102	-	529	-	(119,573)
Operation of non-instructional services:					
Food service operations	241,949	167,789	72,388	-	(1,772)
Other non-instructional services	4,892	4,009	502	-	(381)
Extracurricular activities	257,075	82,413	8,400	-	(166,262)
Interest and fiscal charges	357,535	-	-	-	(357,535)
Total governmental activities	\$ 8,084,632	\$ 808,656	\$ 975,520	\$ 5,897	(6,294,559)

General Revenues:

Property taxes levied for:	
General purposes	1,637,524
Debt service	461,977
Special revenue	34,416
Capital projects	191,546
School district income tax	669,276
Grants and entitlements not restricted to specific programs	4,025,712
Grants and entitlements restricted to Ohio Schools Facilities Construction	342,450
Investment earnings	460,531
Miscellaneous	60,112
Total general revenues	7,883,544
Change in net assets	1,588,985
Net assets at beginning of year	16,880,665
Net assets at end of year	\$ 18,469,650

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents	\$ 865,359	\$ 195,927	\$ 445,689	\$ 2,024,974	\$ 882,853	\$ 4,414,802
Cash in segregated accounts	-	-	97,956	445,039	-	542,995
Receivables:						
Taxes	2,077,912	490,414	-	-	239,100	2,807,426
Accounts	55,184	-	-	-	930	56,114
Intergovernmental	-	-	-	-	92,548	92,548
Accrued interest	1,994	-	-	-	-	1,994
Interfund	66,880	-	-	-	-	66,880
Advances to other funds	4,100	-	-	-	-	4,100
Prepayments	2,372	-	-	-	-	2,372
Materials and supplies inventory	-	-	-	-	1,158	1,158
Restricted assets:						
Equity in pooled cash and cash equivalents	24,392	-	-	-	-	24,392
Total assets	<u>\$ 3,098,193</u>	<u>\$ 686,341</u>	<u>\$ 543,645</u>	<u>\$ 2,470,013</u>	<u>\$ 1,216,589</u>	<u>\$ 8,014,781</u>
Liabilities:						
Accounts payable	\$ 39,090	\$ -	\$ -	\$ -	\$ 6,896	\$ 45,986
Contracts payable	-	-	92,553	771,288	-	863,841
Retainage payable	-	-	97,956	445,039	-	542,995
Accrued wages and benefits	409,191	-	-	-	37,448	446,639
Compensated absences payable	5,456	-	-	-	-	5,456
Pension obligation payable	115,362	-	-	-	11,184	126,546
Intergovernmental payable	47,274	-	-	-	1,186	48,460
Interfund payable	-	-	-	-	66,880	66,880
Advances from other funds	-	-	-	-	4,100	4,100
Tax anticipation note payable	250,000	-	-	-	-	250,000
Accrued interest payable	6,969	-	-	-	-	6,969
Deferred revenue	134,780	37,815	-	-	40,083	212,678
Unearned revenue	1,450,967	405,920	-	-	199,359	2,056,246
Total liabilities	<u>2,459,089</u>	<u>443,735</u>	<u>190,509</u>	<u>1,216,327</u>	<u>367,136</u>	<u>4,676,796</u>
Fund Balances:						
Reserved for encumbrances	54,385	-	-	-	29,257	83,642
Reserved for materials and supplies inventory	-	-	-	-	1,158	1,158
Reserved for prepayments	2,372	-	-	-	-	2,372
Reserved for property tax unavailable for appropriation	162,199	46,679	-	-	21,304	230,182
Reserved for BWC refunds	24,392	-	-	-	-	24,392
Reserved for advances	4,100	-	-	-	-	4,100
Reserved for debt service	-	195,927	-	-	-	195,927
Unreserved, undesignated, reported in:						
General fund	391,656	-	-	-	-	391,656
Special revenue funds	-	-	-	-	348,671	348,671
Capital projects funds	-	-	353,136	1,253,686	449,063	2,055,885
Total fund balances	<u>639,104</u>	<u>242,606</u>	<u>353,136</u>	<u>1,253,686</u>	<u>849,453</u>	<u>3,337,985</u>
Total liabilities and fund balances	<u>\$ 3,098,193</u>	<u>\$ 686,341</u>	<u>\$ 543,645</u>	<u>\$ 2,470,013</u>	<u>\$ 1,216,589</u>	<u>\$ 8,014,781</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$ 3,337,985
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		22,829,759
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 191,032	
Intergovernmental revenue	21,646	
Total		212,678
Unamortized bond issuance costs are not recognized in the funds.		112,579
Unamortized premiums on bond issuances are not recognized in the funds.		(114,482)
Accrued interest payable is not due and payable in the current period and therefore is not recorded in the funds.		(28,185)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	7,421,373	
Notes payable	28,463	
Capital lease obligation payable	38,416	
Compensated absences payable	392,432	
Total		(7,880,684)
Net assets of governmental activities		\$ 18,469,650

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	Bond Retirement	Building	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes	\$ 2,295,989	\$ 459,967	\$ -	\$ -	\$ 223,770	\$ 2,979,726
Tuition.	310,235	-	-	-	-	310,235
Earnings on investments.	49,626	-	36,711	376,230	2,683	465,250
Charges for services.	-	-	-	-	167,789	167,789
Extracurricular.	-	-	-	-	126,126	126,126
Classroom materials and fees	-	-	-	-	21,177	21,177
Other local revenues.	14,272	-	36,776	8,591	194,933	254,572
Intergovernmental - State.	4,392,400	51,401	-	370,159	51,211	4,865,171
Intergovernmental - Federal	-	-	-	-	476,749	476,749
Total revenue	7,062,522	511,368	73,487	754,980	1,264,438	9,666,795
Expenditures:						
Current:						
Instruction:						
Regular	2,924,196	-	-	-	261,363	3,185,559
Special.	847,180	-	-	-	318,404	1,165,584
Vocational.	65,767	-	-	-	-	65,767
Support services:						
Pupil.	265,134	-	-	-	25,264	290,398
Instructional staff	191,124	-	-	-	21,475	212,599
Board of education	39,206	-	-	-	-	39,206
Administration.	531,385	-	-	-	11,572	542,957
Fiscal	261,696	10,953	-	-	6,876	279,525
Operations and maintenance.	574,712	-	-	-	32,127	606,839
Pupil transportation	471,697	-	-	-	21,002	492,699
Central.	109,623	-	-	-	969	110,592
Operation of non-instructional services:						
Food service operations.	-	-	-	-	238,807	238,807
Other non-instructional services.	-	-	-	-	4,892	4,892
Extracurricular activities.	145,670	-	-	-	62,989	208,659
Facilities acquisition and construction	-	-	901,606	9,363,758	-	10,265,364
Debt service:						
Principal retirement	19,164	192,090	-	-	-	211,254
Interest and fiscal charges	8,469	325,373	-	-	-	333,842
Total expenditures	6,455,023	528,416	901,606	9,363,758	1,005,740	18,254,543
Excess of revenues over (under) expenditures.	607,499	(17,048)	(828,119)	(8,608,778)	258,698	(8,587,748)
Other financing sources (uses):						
Transfers in.	-	29,906	249,553	-	-	279,459
Transfers (out)	(29,906)	-	-	-	(249,553)	(279,459)
Sale of assets.	64,226	-	-	-	-	64,226
Total other financing sources (uses)	34,320	29,906	249,553	-	(249,553)	64,226
Net change in fund balances	641,819	12,858	(578,566)	(8,608,778)	9,145	(8,523,522)
Fund balances (deficit) at						
beginning of year (restated).	(2,715)	229,748	931,702	9,862,464	840,308	11,861,507
Fund balances at end of year	\$ 639,104	\$ 242,606	\$ 353,136	\$ 1,253,686	\$ 849,453	\$ 3,337,985

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	(8,523,522)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Additions	\$ 10,265,364	
Depreciation expense	<u>(263,525)</u>	
Total		10,001,839
The net effect of various miscellaneous transactions involving capital assets (i.e.: disposals, sales, trade-ins, and donations) is to decrease net assets.		
Disposals	(2,556,752)	
Accumulated depreciation on disposals	<u>2,472,377</u>	
Total		(84,375)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	15,013	
Accrued interest	(2,036)	
Intergovernmental	<u>(6,155)</u>	
Total		6,822
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(9,381)
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		9,540
Repayment of bond, note, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		211,254
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, 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 the capital appreciation bonds.		
Accrued interest payable	1,648	
Accreted interest	<u>(25,500)</u>	
Total		(23,852)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		<u>660</u>
Change in net assets of governmental activities	\$	<u>1,588,985</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,009,474	\$ 2,136,003	\$ 2,105,401	\$ (30,602)
Tuition.	323,496	343,865	320,002	(23,863)
Earnings on investments.	51,576	54,824	53,490	(1,334)
Other local revenues	26,835	28,525	14,322	(14,203)
Intergovernmental - State	4,210,226	4,475,327	4,392,400	(82,927)
Total revenue	<u>6,621,607</u>	<u>7,038,544</u>	<u>6,885,615</u>	<u>(152,929)</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,868,836	2,907,473	2,959,198	(51,725)
Special.	585,317	782,864	828,750	(45,886)
Vocational.	74,095	68,660	66,233	2,427
Support services:				
Pupil.	269,546	298,028	291,342	6,686
Instructional staff	213,436	224,249	209,574	14,675
Board of education	46,584	48,663	44,377	4,286
Administration.	607,555	590,416	565,531	24,885
Fiscal	253,613	248,066	253,799	(5,733)
Operations and maintenance.	608,780	630,373	575,499	54,874
Pupil transportation	503,708	520,791	494,240	26,551
Central.	91,955	107,818	110,509	(2,691)
Extracurricular activities.	165,851	157,264	155,119	2,145
Total expenditures	<u>6,289,276</u>	<u>6,584,665</u>	<u>6,554,171</u>	<u>30,494</u>
Excess of revenues over expenditures.	<u>332,331</u>	<u>453,879</u>	<u>331,444</u>	<u>(122,435)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	6,148	6,535	407	(6,128)
Sale of notes.	235,191	250,000	250,000	-
Sale of capital assets.	-	-	9,118	9,118
Transfers (out)	(29,906)	(29,906)	(29,906)	-
Advances in.	124,948	132,815	67,550	(65,265)
Advances (out)	(65,010)	(71,750)	(67,980)	3,770
Total other financing sources (uses)	<u>271,371</u>	<u>287,694</u>	<u>229,189</u>	<u>(58,505)</u>
Net change in fund balance	603,702	741,573	560,633	(180,940)
Fund balance at beginning of year.	184,395	184,395	184,395	-
Prior year encumbrances appropriated	75,380	75,380	75,380	-
Fund balance at end of year	<u>\$ 863,477</u>	<u>\$ 1,001,348</u>	<u>\$ 820,408</u>	<u>\$ (180,940)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 6,947	\$ 56,568
Total assets	<u>6,947</u>	<u>\$ 56,568</u>
Liabilities:		
Due to students	-	\$ 56,568
Total liabilities	<u>-</u>	<u>\$ 56,568</u>
Net Assets:		
Held in trust for scholarships	<u>6,947</u>	
Total net assets	<u>\$ 6,947</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 297
Total additions.	297
Deductions:	
Scholarships awarded	180
Change in net assets	117
Net assets at beginning of year	6,830
Net assets at end of year	\$ 6,947

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mechanicsburg Exempted Village School District (the "District") is located in Champaign County, in west-central Ohio. The District includes all of the Village of Mechanicsburg and portions of surrounding townships.

The District was organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 building that is composed of its elementary, middle school and high school. The District employs 30 non-certified and 59 certified (including administrative) full-time and part-time employees to provide services to approximately 880 students in grades K through 12 and various community groups, which ranks it 524th out of 876 public school districts and community schools in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Career Center

The Ohio Hi-Point Career Center is a distinct political subdivision of the State of Ohio, which possesses its own budgeting and taxing authority. The Career Center is governed by a board of education that consists of a representative from each participating school district and its degree of control is limited to its representation on the board. To obtain financial information write to the Ohio Hi-Point Career Center, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of various public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Shelby, and Miami counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional function amount member school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent on the software package utilized. In accordance with GASB Statement No. 14, the District does not have an equity interest in WOCO, as the residual interest in net resources of the joint venture upon dissolution is not equivalent to an equity interest. WOCO is governed by a board of directors consisting of the superintendents of the member school districts and the degree of control is limited to the representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

RELATED ORGANIZATION

Mechanicsburg Public Library

The Mechanicsburg Public Library (Library) is an organization related to the District. The School Board members are responsible for appointing the trustees of the Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library determines its own budget. The Library did not receive any funding from the District during fiscal year 2007.

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP)

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP). The GRP is sponsored by OASBO and administered by Sheakley UniServe, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

PUBLIC ENTITY RISK POOL

The District is also a participant in an insurance group purchasing pool, discussed in Note 13.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Bond Retirement Fund - The bond retirement fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

Building Fund - The building fund is used to account for the receipts and expenditures related to all special bond funds in the District and to account for receipts and expenditures involved in the construction and replacement of facilities for the instruction of students in job skills. All proceeds from the sale of bonds must be paid into this fund. Expenditures recorded here represent the costs of acquiring and improving capital facilities, including real property.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

D. Basis of Accounting

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

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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - 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 in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificates of Estimated Resources issued for fiscal year 2007.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2007. 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, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Investment earnings are assigned to the general fund, building fund, classroom facilities, food service fund, and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$49,626, which includes \$31,913 assigned from other funds.

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

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

G. Inventory

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

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

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

H. Capital Assets

Governmental capital assets are those assets generally related to governmental 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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. The District does not possess infrastructure.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Long-term interfund loans that will not be repaid within the next fiscal year are classified as "advances to/from other funds" and are shown as reservations of fund balances on the balance sheet because they are not spendable, available resources. These amounts are eliminated in the governmental activities column on the statement of net assets.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, debt service, materials and supplies inventory, prepayments, advances, BWC refunds, and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents an amount restricted by State statute for BWC refunds.

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside for BWC refunds. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 18.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Q. Interfund Activity

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

R. Unamortized Bond Issuance Costs and Bond Premium

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

Beginning governmental fund balances have been restated in order to properly record expenditures made from incorrect funds in prior fiscal years. This adjustment had no effect on net assets at June 30, 2006. The adjustment had the following effect on governmental fund balances at June 30, 2006:

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance (deficit) at June 30, 2006	\$ (2,715)	\$ 229,748	\$ 631,482	\$ 10,162,684	\$ 840,308	\$ 11,861,507
Adjustment for incorrect recording of expenditures	-	-	300,220	(300,220)	-	-
Fund balance (deficit) at July 1, 2006, restated	<u>\$ (2,715)</u>	<u>\$ 229,748</u>	<u>\$ 931,702</u>	<u>\$ 9,862,464</u>	<u>\$ 840,308</u>	<u>\$ 11,861,507</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Internal Service Rotary	\$ 12,568
Management Information Systems	1,650
Miscellaneous Federal Grants	10

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At year-end, the District had \$400 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash in Segregated Accounts

At June 30, 2007, the District had \$542,995 in a segregated account for retainage obligations outstanding due to construction. This account was covered by the Federal Deposit Insurance Corporation or pooled collateral held by the depository institution. This amount is not included in the District's depository balance below

C. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$3,936,627. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$3,949,782 of the District's bank balance of \$4,159,150 was exposed to custodial risk as discussed below, while \$209,368 was covered by the Federal Deposit Insurance Corporation.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

D. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturities 6 months or less
STAR Ohio	\$ 565,682	\$ 565,682
Total	<u>\$ 565,682</u>	<u>\$ 565,682</u>

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 565,682	100.00
Total	<u>\$ 565,682</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,936,627
Investments	565,682
Cash in segregated accounts	542,995
Cash on hand	<u>400</u>
Total	<u>\$ 5,045,704</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,982,189
Private-purpose trust fund	6,947
Agency funds	<u>56,568</u>
Total	<u>\$ 5,045,704</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers from General fund to:	
Bond Retirement fund	\$ 29,906
Transfers from Nonmajor governmental funds to:	
Building fund	249,553

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

Transfer in the amount of \$249,553 was from Permanent Improvement fund to the Building fund to fund the District's locally funded initiatives in conjunction with the District's Ohio Schools Facility Commission project.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities at June 30, 2007.

- B.** Interfund balances at June 30, 2007, as reported on the fund financial statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 66,880

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, 2007 are reported on the statement of net assets.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Interfund balances at June 30, 2007, as reported on the fund financial statements, consist of the following long-term advances receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 4,100

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The long-term interfund balances are not 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, 2007 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or 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.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008 and zero for 2009. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Champaign and Madison Counties. The County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amounts available as an advance at June 30, 2007 were \$162,199 in the general fund, \$46,679 in the bond retirement fund, \$17,921 in the permanent improvement fund, a nonmajor governmental fund and \$3,383 in the classroom facilities maintenance fund, a nonmajor governmental fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2006 was \$146,834 in the general fund, \$41,891 in the bond retirement fund, \$16,544 in the permanent improvement fund, a nonmajor governmental fund and \$3,145 in the classroom facilities maintenance fund, a nonmajor governmental fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 70,466,970	90.48	\$ 71,168,360	91.67
Public utility personal	3,595,030	4.62	2,901,068	3.74
Tangible personal property	<u>3,820,630</u>	<u>4.90</u>	<u>3,566,160</u>	<u>4.59</u>
Total	<u>\$ 77,882,630</u>	<u>100.00</u>	<u>\$ 77,635,588</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 31.10		\$ 31.20	
Permanent Improvement	5.00		5.00	
Bond Retirement	6.40		6.45	

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 2,807,426
Accounts	56,114
Intergovernmental	92,548
Accrued interest	<u>1,994</u>
Total	<u>\$ 2,958,082</u>

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

NOTE 8 - INCOME TAXES

The District levies a voted income tax of one and one half percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1997 and is in effect for a continual period of time. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the state, and taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$669,276 for fiscal year 2007. Taxes receivable reported in the basic financial statements includes \$329,966 of income tax receivable.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 292,500	\$ -	\$ -	\$ 292,500
Construction in progress	<u>10,412,932</u>	<u>10,265,364</u>	<u>(20,678,296)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>10,705,432</u>	<u>10,265,364</u>	<u>(20,678,296)</u>	<u>292,500</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	646,661	-	-	646,661
Buildings and improvements	3,401,066	20,678,296	(2,446,442)	21,632,920
Furniture and equipment	1,194,271	-	(110,310)	1,083,961
Vehicles	<u>598,996</u>	<u>-</u>	<u>-</u>	<u>598,996</u>
Total capital assets, being depreciated	<u>5,840,994</u>	<u>20,678,296</u>	<u>(2,556,752)</u>	<u>23,962,538</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(31,050)	(26,544)	-	(57,594)
Buildings and improvements	(2,633,109)	(22,448)	2,371,804	(283,753)
Furniture and equipment	(562,510)	(192,439)	100,573	(654,376)
Vehicles	<u>(407,462)</u>	<u>(22,094)</u>	<u>-</u>	<u>(429,556)</u>
Total accumulated depreciation	<u>(3,634,131)</u>	<u>(263,525)</u>	<u>2,472,377</u>	<u>(1,425,279)</u>
Governmental activities capital assets, net	<u>\$ 12,912,295</u>	<u>\$ 30,680,135</u>	<u>\$(20,762,671)</u>	<u>\$ 22,829,759</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 108,476
Special	7,757
Vocational	4,002
<u>Support Services:</u>	
Pupil	1,979
Instructional staff	1,402
Administration	14,031
Fiscal	2,424
Operations and maintenance	25,155
Pupil transportation	38,266
Central	8,475
Extracurricular activities	48,416
Food service operations	<u>3,142</u>
Total depreciation expense	<u>\$ 263,525</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District has entered into a lease for the acquisition of copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. The capital lease transaction was accounted for as capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. These expenditures are reflected as function expenditures on a budgetary basis.

General capital assets acquired by capital lease have been capitalized in the amount of \$95,667, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2007 was \$63,778, leaving a current book value of \$31,889. Principal payments in fiscal year 2007 totaled \$19,164.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2008	\$ 20,664
2009	<u>18,942</u>
Total minimum lease payments	39,606
Less: amount representing interest	<u>(1,190)</u>
Present value of minimum lease payments	<u>\$ 38,416</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The following is a description of the District's long-term debt obligations outstanding as of June 30, 2007:

	Balance Outstanding <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/07</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
General obligation current interest bonds	\$ 7,320,000	\$ -	\$ (165,000)	\$ 7,155,000	\$ 175,000
General obligation capital appreciation bonds	195,265	-	-	195,265	-
General obligation capital appreciation bonds-accreted interest	45,608	25,500	-	71,108	-
Notes payable	55,553	-	(27,090)	28,463	28,463
Capital lease obligation payable	57,580	-	(19,164)	38,416	19,761
Compensated absences payable	<u>422,786</u>	<u>49,931</u>	<u>(74,829)</u>	<u>397,888</u>	<u>23,410</u>
Total long-term obligations	<u>\$ 8,096,792</u>	<u>\$ 75,431</u>	<u>\$ (286,083)</u>	7,886,140	<u>\$ 246,634</u>
				Add: Unamortized premium on bonds	<u>114,482</u>
				Total on Statement of Net Assets	<u>\$ 8,000,622</u>

General obligation bonds, series 2004: The general obligation bonds, series 2004, were issued on April 1, 2004, mature on December 1, 2031, and carry interest rates from 3.75% to 5.00%. The general obligation bonds are comprised of current interest serial bonds (par value \$2,680,000), current interest term bonds (par value \$4,900,000), and capital appreciation bonds (par value \$195,265). Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The general obligation bonds were issued in order to provide funds for the acquisition and construction of land, facilities and equipment.

The capital appreciation bonds mature at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$440,000. Total accreted interest of \$71,108 has been included on the statement of net assets.

The current interest bonds maturing on December 1, 2015 and thereafter are subject to optional redemption, in whole or in part on any date in any order of maturity and by lot within a maturity on or after December 1, 2014 at par, which is 100% of the face value of the current interest bonds. The capital appreciation bonds are not subject to redemption prior to scheduled maturity.

Notes payable, series 2004: The notes payable, series 2004, were issued on April 19, 2004, mature on July 1, 2007, and carry an interest rate of 5.00%. The notes payable were issued in the amount of \$110,125 in order to finance the purchase of school buses.

Compensated absences: Compensated absences will be paid from the fund from which the employee is paid, which, for the District, is primarily the general fund.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Capital lease obligation: The capital lease obligation will be paid from the general fund. See Note 10 for more details.

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2007 are as follows:

<u>Year Ended</u>	<u>Current Interest Bonds, Series 2004</u>			<u>Capital Appreciation Bonds, Series 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 175,000	\$ 320,907	\$ 495,907	\$ -	\$ -	\$ -
2009	190,000	316,969	506,969	-	-	-
2010	205,000	311,744	516,744	-	-	-
2011	215,000	305,594	520,594	-	-	-
2012	-	298,608	298,608	102,540	117,460	220,000
2013 - 2017	940,000	1,438,640	2,378,640	92,725	127,275	220,000
2018 - 2022	1,415,000	1,185,822	2,600,822	-	-	-
2023 - 2027	1,770,000	828,308	2,598,308	-	-	-
2028 - 2032	<u>2,245,000</u>	<u>348,000</u>	<u>2,593,000</u>	-	-	-
Total	<u>\$ 7,155,000</u>	<u>\$ 5,354,592</u>	<u>\$ 12,509,592</u>	<u>\$ 195,265</u>	<u>\$ 244,735</u>	<u>\$ 440,000</u>

<u>Year Ended</u>	<u>Notes Payable, Series 2004</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 28,463	\$ 1,443	\$ 29,906
Total	<u>\$ 28,463</u>	<u>\$ 1,443</u>	<u>\$ 29,906</u>

NOTE 12 - TAX ANTICIPATION NOTE PAYABLE

On November 7, 2006, the District issued a \$250,000 current tax revenue note for the purpose of paying current expenses of the District in fiscal year 2007, in anticipation of current property tax revenues. This note was authorized by the Ohio Revised Code, particularly section 133.10. The note has an annual interest rate of 4.24% and matures on November 1, 2007. The note was receipted into the general fund and has been recorded as a liability within the general fund accordingly.

NOTE 13 - RISK MANAGEMENT

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

The District provides medical/surgical benefits to its employees through the United Health Care Inc., a fully funded program. The District has elected to provide employee dental insurance, life insurance, accidental death and dismemberment insurance through Genworth Financial, a fully funded program.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - RISK MANAGEMENT - (Continued)

During fiscal year 2007, the District participated in a joint self-insurance pool pursuant to Revised Code Section 2744.081 administered through the Metropolitan Educational Council. Insurances are provided by The Travelers Insurance Companies, Selective Insurance Company Inc., Westchester Fire Insurance Company and Federal Insurance Company for property and fleet insurance, liability insurance and inland marine coverage. Coverages provided by Selective Insurance Company are as follows:

Building and contents - replacement cost	\$18,105,500
Automobile liability	3,000,000
Uninsured motorists	100,000
Crime	10,000
General liability:	
Per occurrence	1,000,000
Total per year	3,000,000

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

There has been no significant change in coverage from fiscal year 2006.

OASBO WORKER'S COMPENSATION GROUP RATING

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

NOTE 14 - PENSION PLANS

A. School Employees Retirement System

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

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended June 30, 2007, 2006, and 2005 were \$83,528, \$81,982, and \$83,437, respectively; 44.70 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$46,193 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 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 District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$391,651, \$438,790 and \$427,566; 87.49 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$49,014 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$595 made by the District and \$5,586 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$30,127 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$43,107 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Advance-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 560,633
Net adjustment for revenue accruals	176,907
Net adjustment for expenditure accruals	29,805
Net adjustment for other sources/uses	(194,869)
Adjustment for encumbrances	<u>69,343</u>
GAAP basis	<u>\$ 641,819</u>

NOTE 17 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 18 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refund</u>
Set-aside balance/carry forward as of June 30, 2006	\$ (8,159)	\$ (8,122,122)	\$ 24,392
Current year set-aside requirement	129,488	129,488	-
Qualifying disbursements	<u>(134,330)</u>	<u>(386,855)</u>	<u>-</u>
Total	<u>\$ (13,001)</u>	<u>\$ (8,379,489)</u>	<u>\$ 24,392</u>
Balance carried forward to FY 2008	<u>\$ (13,001)</u>	<u>\$ (8,122,122)</u>	<u>\$ 24,392</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 18 - STATUTORY RESERVES - (Continued)

Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside below zero, these extra amounts may not be used to reduce the set-aside requirement in future years.

The qualifying disbursements during the year that reduced the textbook set-a-side below zero may be carried forward and used to reduce the set-a-side requirement in future years.

A schedule of the restricted assets at June 30, 2007 follows:

BWC refund	<u>\$ 24,392</u>
Total restricted assets	<u>\$ 24,392</u>

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENT

The District retired the tax anticipation note from the general fund on October 29, 2007. Payment of the note totaled \$260,453, which consisted of \$250,000 in principal and \$10,453 in interest respectively.



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**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
Mechanicsburg Exempted Village School District
60 High St.
Mechanicsburg, Ohio 43044

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District, Champaign County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Mechanicsburg Exempted Village School District's basic financial statements and have issued our report thereon dated December 11, 2007. As disclosed in Note 3A, the Mechanicsburg Exempted Village School District has reported a prior period adjustment to properly report expenditures in the proper fund at June 30, 2006. 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 Mechanicsburg Exempted Village School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mechanicsburg Exempted Village School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mechanicsburg Exempted Village School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mechanicsburg Exempted Village School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mechanicsburg Exempted Village School District's financial statements that is more than inconsequential will not be prevented or detected by Mechanicsburg Exempted Village School District's internal control. We consider 2007-MEVSD-001, the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mechanicsburg Exempted Village School District's internal control.

Board of Education
Mechanicsburg Exempted Village School District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mechanicsburg Exempted Village 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*.

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

This report is intended solely for the information and use of the management and Board of Education of Mechanicsburg Exempted Village School District and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
December 11, 2007

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-MEVSD-001

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accounts, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

Beginning governmental fund balances have been restated in order to properly record expenditures made from the Building Fund, which should have been recorded in the Classroom Facilities Fund. The amount of these expenditures was \$300,220.

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

We recommend the District implement control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatement in the financial statements.

Client Response: The allocation between the building fund and the Classroom Facilities fund is based on percentages of total expenditures of the project. These adjustments were necessary based upon new percentages of total expenditures of the project.



Mary Taylor, CPA
Auditor of State

MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 31, 2008**