

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

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

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008***

**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, 2007 through June 30, 2008. 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

February 10, 2009

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

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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

Independent 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, 2008, 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.

As disclosed in Note 3.A., Mechanicsburg Exempted Village School District has restated its net assets at July 1, 2007 to properly state its capital assets.

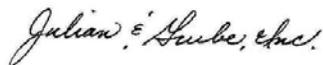
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanicsburg Exempted Village School District, as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, 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.

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



Julian & Grube, Inc.  
December 29, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

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, 2008. 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 2008 are as follows:

- In total, net assets of governmental activities increased \$232,918 which represents a 1.12% increase from 2007.
- General revenues accounted for \$8,183,682 in revenue or 80.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,024,511 or 19.83% of total revenues of \$10,208,193.
- The District had \$9,975,275 in expenses related to governmental activities; \$2,024,511 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 \$8,183,682 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 \$8,397,214 in revenues and other financing sources and \$7,465,036 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance increased \$932,178 from \$639,104 to \$1,571,282.
- The District's bond retirement fund had \$531,141 in revenues and other financing sources and \$536,829 in expenditures. During fiscal year 2008, the bond retirement fund's fund balance decreased \$5,688 from \$242,606 to \$236,918.
- The District's building fund had \$22,689 in revenues and \$103,734 in expenditures. During fiscal year 2008, the building fund's fund balance decreased \$81,045 from \$353,136 to \$272,091.
- The District's classroom facilities fund had \$184,402 in revenues and \$937,239 in expenditures. During fiscal year 2008, the classroom facilities fund balance decreased \$752,837 from \$1,253,686 to \$500,849.

**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, 2008  
(UNAUDITED)

**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 2008?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, 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 15-19 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 20 and 21. 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, 2008  
(UNAUDITED)

***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 22-50 of this report.

**The District as a Whole**

Recall that the statement of net assets provides the perspective of the District as a whole. Net assets at June 30, 2007 have been restated, as described in Note 3.A in the notes to the basic financial statements.

The table below provides a summary of the District's net assets for 2008 and 2007.

	<b>Net Assets</b>	
	Governmental Activities 2008	(Restated) Governmental Activities 2007
<b><u>Assets</u></b>		
Current and other assets	\$ 7,103,650	\$ 8,056,380
Capital assets, net	<u>25,582,122</u>	<u>25,227,333</u>
Total assets	<u>32,685,772</u>	<u>33,283,713</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,624,394	4,415,867
Long-term liabilities	<u>7,961,236</u>	<u>8,000,622</u>
Total liabilities	<u>11,585,630</u>	<u>12,416,489</u>
<b><u>Net assets</u></b>		
Invested in capital assets, net of related debt	18,246,308	17,808,286
Restricted	1,689,861	2,695,304
Unrestricted	<u>1,163,973</u>	<u>363,634</u>
Total net assets	<u>\$ 21,100,142</u>	<u>\$ 20,867,224</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$21,100,142.

At year-end, capital assets represented 78.27% 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, 2008, were \$18,246,308. 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.

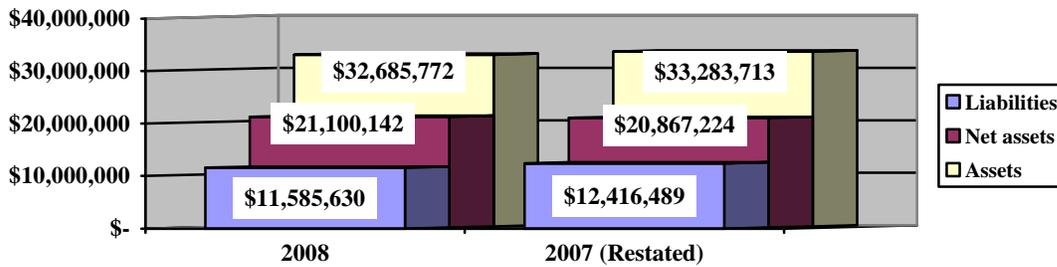
**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT  
CHAMPAIGN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)**

A portion of the District's net assets, \$1,689,861, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,163,973 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below presents the District's assets, liabilities and net assets for fiscal years 2008 and 2007.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2008 and 2007.

**Change in Net Assets**

	Governmental Activities 2008	Governmental Activities 2007
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 926,366	\$ 808,656
Operating grants and contributions	1,093,437	975,520
Capital grants and contributions	4,708	5,897
General revenues:		
Property taxes	2,221,132	2,325,463
School district income taxes	1,390,207	669,276
Grants and entitlements	4,371,239	4,368,162
Investment earnings	169,802	460,531
Other	31,302	60,112
<b>Total revenues</b>	<b>10,208,193</b>	<b>9,673,617</b>

--continued

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

**Change in Net Assets - (Continued)**

	<u>Governmental Activities 2008</u>	<u>Governmental Activities 2007</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,118,309	\$ 3,284,211
Special	1,363,841	1,174,080
Vocational	149,507	69,769
Support services:		
Pupil	306,224	299,552
Instructional staff	212,577	213,096
Board of education	39,981	39,206
Administration	724,926	552,929
Fiscal	327,541	283,508
Operations and maintenance	967,506	654,206
Pupil transportation	597,091	532,522
Central	81,494	120,102
Food service operations	322,840	241,949
Operations of non-instructional services	11,830	4,892
Extracurricular activities	398,923	257,075
Interest and fiscal charges	<u>352,685</u>	<u>357,535</u>
Total expenses	<u>9,975,275</u>	<u>8,084,632</u>
Change in net assets	232,918	1,588,985
Net assets at beginning of year (restated)	<u>20,867,224</u>	<u>19,278,239</u>
Net assets at end of year	<u>\$ 21,100,142</u>	<u>\$ 20,867,224</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$232,918. Total governmental expenses of \$9,975,275 were offset by program revenues of \$2,024,511 and general revenues of \$8,183,682. Program revenues supported 21.04% of the total governmental expenses.

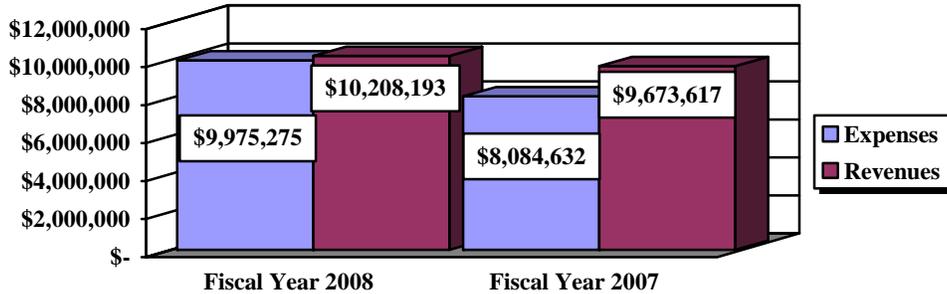
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 78.20% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,631,657 or 56.46% of total governmental expenses for fiscal year 2008.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2008 and 2007.



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 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,118,309	\$ 3,432,414	\$ 3,284,211	\$ 2,668,589
Special	1,363,841	631,191	1,174,080	495,017
Vocational	149,507	73,275	69,769	40,491
Support services:				
Pupil	306,224	251,454	299,552	272,778
Instructional staff	212,577	191,477	213,096	192,773
Board of education	39,981	39,981	39,206	39,206
Administration	724,926	715,949	552,929	538,949
Fiscal	327,541	327,541	283,508	282,059
Operations and maintenance	967,506	967,432	654,206	652,467
Pupil transportation	597,091	493,548	532,522	466,707
Central	81,494	81,494	120,102	119,573
Food service operations	322,840	50,274	241,949	1,772
Operations of non-instructional services	11,830	11,767	4,892	381
Extracurricular activities	398,923	330,282	257,075	166,262
Interest and fiscal charges	352,685	352,685	357,535	357,535
<b>Total expenses</b>	<u>\$ 9,975,275</u>	<u>\$ 7,950,764</u>	<u>\$ 8,084,632</u>	<u>\$ 6,294,559</u>

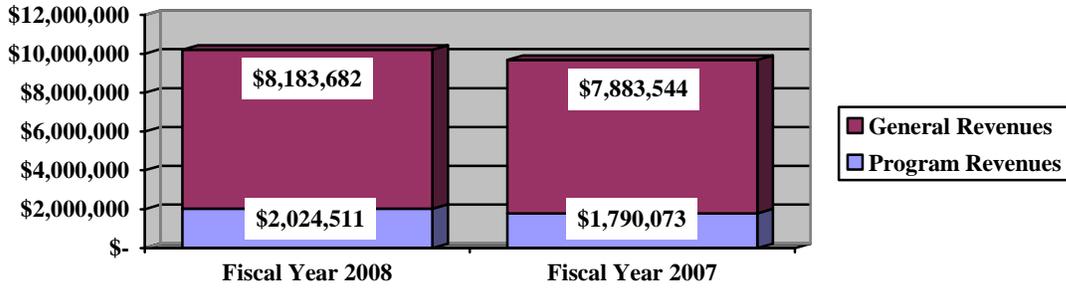
The dependence upon tax and other general revenues for governmental activities is apparent, 73.46% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.70%. The District's taxpayers and unrestricted grants and 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, 2008  
(UNAUDITED)

The graph below presents the District's governmental activities revenue for fiscal year 2008 and 2007.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,261,454, which is less than last year's total of \$3,337,985. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	<u>Fund Balance June 30, 2008</u>	<u>Fund Balance June 30, 2007</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 1,571,282	\$ 639,104	\$ 932,178	145.86 %
Bond retirement	236,918	242,606	(5,688)	(2.34) %
Building	272,091	353,136	(81,045)	(22.95) %
Classroom facilities	500,849	1,253,686	(752,837)	(60.05) %
Other governmental	<u>680,314</u>	<u>849,453</u>	<u>(169,139)</u>	<u>(19.91) %</u>
Total	<u>\$ 3,261,454</u>	<u>\$ 3,337,985</u>	<u>\$ (76,531)</u>	<u>(2.29) %</u>

**General Fund**

The District's general fund balance increased \$932,178. The increase in fund balance can be attributed to several items related to increasing revenues outpacing increasing expenditures. Revenues exceed expenditures for fiscal year 2008 by \$808,830.

Tax revenue increased 32.03% over the prior year due to a full year of income tax collections at the District's new income tax rate of 1.5%. Tuition revenue increased 26.78% due to higher enrollment. Intergovernmental revenues increased 7.39% due to increased State support which resulted from the higher enrollment. Earnings on investments increased due to the District having more funds to invest during the fiscal year. Instruction expenditures increased 12.33% due to increases in wages and benefits and the District hiring new teachers. Support services expenditures increased 18.72% due to the cost of maintaining the District's new facilities. Extracurricular expenditures increased 36.27%, which is primarily due to the District hiring a full-time Athletic Director. The table that follows assists in illustrating the financial activities of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
(UNAUDITED)

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,031,330	\$ 2,295,989	\$ 735,341	32.03 %
Tuition	393,304	310,235	83,069	26.78 %
Earnings on investments	75,728	49,626	26,102	52.60 %
Intergovernmental	4,716,897	4,392,400	324,497	7.39 %
Other revenues	<u>26,685</u>	<u>14,272</u>	<u>12,413</u>	86.97 %
Total	<u>\$ 8,243,944</u>	<u>\$ 7,062,522</u>	<u>\$ 1,181,422</u>	16.73 %
<b><u>Expenditures</u></b>				
Instruction	\$ 4,310,347	\$ 3,837,143	\$ 473,204	12.33 %
Support services	2,902,117	2,444,577	457,540	18.72 %
Extracurricular activities	198,502	145,670	52,832	36.27 %
Debt service	<u>24,148</u>	<u>27,633</u>	<u>(3,485)</u>	(12.61) %
Total	<u>\$ 7,435,114</u>	<u>\$ 6,455,023</u>	<u>\$ 980,091</u>	15.18 %

***Bond Retirement Fund***

The District's bond retirement fund had \$531,141 in revenues and other financing sources and \$536,829 in expenditures. During fiscal year 2008, the bond retirement fund's fund balance decreased \$5,688 from \$242,606 to \$236,918.

***Building Fund***

The District's building fund had \$22,689 in revenues and \$103,734 in expenditures. During fiscal year 2008, the building fund's fund balance decreased \$81,045 from \$353,136 to \$272,091. The decrease in the building fund's fund balance can be attributed to construction payments for the District's new facilities.

***Classroom Facilities Fund***

The District's classroom facilities fund had \$184,402 in revenues and \$937,239 in expenditures. During fiscal year 2008, the classroom facilities fund balance decreased \$752,837 from \$1,253,686 to \$500,849. The decrease in the classroom facilities fund's fund balance can be attributed to construction payments for the District's 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 year 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,393,161 and final budgeted revenues and other financing sources were \$8,453,793. Actual revenues and other financing sources for fiscal year 2008 was \$8,315,763. This represents a \$138,030 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,710,176 were increased to \$7,859,605 in the final appropriations. The actual budget basis expenditures for fiscal year 2008 totaled \$7,653,119 which was \$206,486 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, 2008  
(UNAUDITED)

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2008, the District had \$25,582,122 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. 2007 capital asset balances were restated as described in Note 3.A. in the notes to the basic financial statements. The following table shows fiscal year 2008 balances compared to 2007:

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

	Governmental Activities	
	2008	(Restated) 2007
Land	\$ 250,000	\$ 250,000
Land improvements	3,472,505	3,463,415
Building and improvements	21,120,349	21,101,773
Furniture and equipment	536,853	295,231
Vehicles	202,415	116,914
Total	\$ 25,582,122	\$ 25,227,333

The overall increase in capital assets of \$354,789 is due to capital outlays of \$1,181,428 exceeding depreciation expense of \$826,639.

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

*Debt Administration*

At June 30, 2008, the District had \$7,274,573 in general obligation bonds outstanding. Of this total, \$190,000 is due within one year and \$7,084,573 is due in more than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
General obligation bonds	\$ 7,274,573	\$ 7,421,373
General obligation notes	-	28,463
Total	\$ 7,274,573	\$ 7,449,836

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, 2008  
(UNAUDITED)**

**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. Decreases in property tax revenues began 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 during fiscal year 2008 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 manage 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 53% 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, 2008

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 3,447,220
Cash in segregated accounts. . . . .	433,886
Receivables:	
Taxes . . . . .	3,082,012
Accounts . . . . .	788
Intergovernmental . . . . .	26,526
Accrued interest . . . . .	4,001
Prepayments . . . . .	3,583
Materials and supplies inventory . . . . .	2,436
Unamortized bond issuance costs. . . . .	103,198
Capital assets:	
Land . . . . .	250,000
Depreciable capital assets, net . . . . .	25,332,122
Capital assets, net. . . . .	25,582,122
Total assets. . . . .	32,685,772
<b>Liabilities:</b>	
Accounts payable. . . . .	55,512
Contracts payable. . . . .	87,965
Retainage payable . . . . .	433,886
Accrued wages and benefits . . . . .	526,474
Pension obligation payable. . . . .	172,948
Intergovernmental payable . . . . .	97,651
Accrued interest payable . . . . .	28,044
Unearned revenue. . . . .	2,221,914
Long-term liabilities:	
Due within one year. . . . .	297,216
Due in more than one year. . . . .	7,664,020
Total liabilities . . . . .	11,585,630
<b>Net assets:</b>	
Invested in capital assets, net of related debt. . . . .	18,246,308
Restricted for:	
Capital projects . . . . .	1,230,780
Debt service. . . . .	231,097
Classroom facilities maintenance. . . . .	166,211
State funded programs. . . . .	1,218
Federal funded programs. . . . .	3,590
Student activities. . . . .	32,573
Other purposes . . . . .	24,392
Unrestricted . . . . .	1,163,973
Total net assets . . . . .	\$ 21,100,142

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, 2008

	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
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 4,118,309	\$ 626,493	\$ 59,402	\$ -	\$ (3,432,414)
Special . . . . .	1,363,841	4,270	728,380	-	(631,191)
Vocational . . . . .	149,507	-	76,232	-	(73,275)
Support services:					
Pupil. . . . .	306,224	17	54,753	-	(251,454)
Instructional staff . . . . .	212,577	8,304	12,796	-	(191,477)
Board of education . . . . .	39,981	-	-	-	(39,981)
Administration. . . . .	724,926	7,952	1,025	-	(715,949)
Fiscal. . . . .	327,541	-	-	-	(327,541)
Operations and maintenance . . . . .	967,506	-	74	-	(967,432)
Pupil transportation. . . . .	597,091	18,479	80,356	4,708	(493,548)
Central . . . . .	81,494	-	-	-	(81,494)
Operation of non-instructional services:					
Food service operations . . . . .	322,840	194,970	77,596	-	(50,274)
Other non-instructional services . . . . .	11,830	-	63	-	(11,767)
Extracurricular activities. . . . .	398,923	65,881	2,760	-	(330,282)
Interest and fiscal charges . . . . .	352,685	-	-	-	(352,685)
<b>Total governmental activities . . . . .</b>	<b>\$ 9,975,275</b>	<b>\$ 926,366</b>	<b>\$ 1,093,437</b>	<b>\$ 4,708</b>	<b>(7,950,764)</b>
<b>General revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					1,590,395
Debt service. . . . .					425,118
Special revenue . . . . .					31,047
Capital projects . . . . .					174,572
School district income tax . . . . .					1,390,207
Grants and entitlements not restricted to specific programs. . . . .					4,258,222
Grants and entitlements restricted to Ohio Schools Facilities Construction . . . . .					113,017
Investment earnings . . . . .					169,802
Miscellaneous . . . . .					31,302
<b>Total general revenues . . . . .</b>					<b>8,183,682</b>
Change in net assets. . . . .					232,918
<b>Net assets at beginning of year (restated) . . . . .</b>					<b>20,867,224</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 21,100,142</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>						
Equity in pooled cash and cash equivalents . . . . .	\$ 1,579,274	\$ 203,545	\$ 279,506	\$ 581,399	\$ 779,104	\$ 3,422,828
Cash in segregated accounts . . . . .	-	-	140,867	293,019	-	433,886
Receivables:						
Taxes . . . . .	2,372,689	475,719	-	-	233,604	3,082,012
Accounts . . . . .	750	-	-	-	38	788
Intergovernmental . . . . .	548	-	-	-	25,978	26,526
Accrued interest . . . . .	4,001	-	-	-	-	4,001
Interfund . . . . .	73,535	-	-	-	-	73,535
Advances to other funds . . . . .	2,000	-	-	-	-	2,000
Prepayments . . . . .	3,583	-	-	-	-	3,583
Materials and supplies inventory . . . . .	-	-	-	-	2,436	2,436
Restricted assets:						
Equity in pooled cash and cash equivalents . . . . .	24,392	-	-	-	-	24,392
Total assets . . . . .	<u>\$ 4,060,772</u>	<u>\$ 679,264</u>	<u>\$ 420,373</u>	<u>\$ 874,418</u>	<u>\$ 1,041,160</u>	<u>\$ 7,075,987</u>
<b>Liabilities:</b>						
Accounts payable . . . . .	\$ 52,312	\$ -	\$ -	\$ -	\$ 3,200	\$ 55,512
Contracts payable . . . . .	-	-	7,415	80,550	-	87,965
Retainage payable . . . . .	-	-	140,867	293,019	-	433,886
Accrued wages and benefits . . . . .	476,656	-	-	-	49,818	526,474
Compensated absences payable . . . . .	25,765	-	-	-	-	25,765
Pension obligation payable . . . . .	161,842	-	-	-	11,106	172,948
Intergovernmental payable . . . . .	93,804	-	-	-	3,847	97,651
Interfund payable . . . . .	-	-	-	-	73,535	73,535
Advances from other funds . . . . .	-	-	-	-	2,000	2,000
Deferred revenue . . . . .	84,052	22,223	-	-	10,608	116,883
Unearned revenue . . . . .	1,595,059	420,123	-	-	206,732	2,221,914
Total liabilities . . . . .	<u>2,489,490</u>	<u>442,346</u>	<u>148,282</u>	<u>373,569</u>	<u>360,846</u>	<u>3,814,533</u>
<b>Fund balances:</b>						
Reserved for encumbrances . . . . .	27,455	-	4,928	38,757	60,037	131,177
Reserved for materials and supplies inventory . . . . .	-	-	-	-	2,436	2,436
Reserved for prepayments . . . . .	3,583	-	-	-	-	3,583
Reserved for property tax unavailable for appropriation . . . . .	129,391	33,373	-	-	16,264	179,028
Reserved for BWC refunds . . . . .	24,392	-	-	-	-	24,392
Reserved for advances . . . . .	2,000	-	-	-	-	2,000
Reserved for debt service . . . . .	-	203,545	-	-	-	203,545
Unreserved, undesignated, reported in:						
General fund . . . . .	1,384,461	-	-	-	-	1,384,461
Special revenue funds . . . . .	-	-	-	-	202,507	202,507
Capital projects funds . . . . .	-	-	267,163	462,092	399,070	1,128,325
Total fund balances . . . . .	<u>1,571,282</u>	<u>236,918</u>	<u>272,091</u>	<u>500,849</u>	<u>680,314</u>	<u>3,261,454</u>
Total liabilities and fund balances . . . . .	<u>\$ 4,060,772</u>	<u>\$ 679,264</u>	<u>\$ 420,373</u>	<u>\$ 874,418</u>	<u>\$ 1,041,160</u>	<u>\$ 7,075,987</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, 2008

<b>Total governmental fund balances</b>		\$	3,261,454
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			25,582,122
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.			116,883
Unamortized bond issuance costs are not recognized in the funds.			103,198
Unamortized premiums on bond issuances are not recognized in the funds.			(104,942)
Accrued interest payable is not due and payable in the current period and therefore is not recorded in the funds.			(28,044)
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	\$	7,274,573	
Capital lease obligation payable		158,805	
Compensated absences payable		397,151	
Total			(7,830,529)
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>21,100,142</b>

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, 2008

	<u>General</u>	<u>Bond Retirement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>						
From local sources:						
Taxes . . . . .	\$ 3,031,330	\$ 440,710	\$ -	\$ -	\$ 213,448	\$ 3,685,488
Tuition. . . . .	393,304	-	-	-	-	393,304
Earnings on investments. . . . .	75,728	-	22,689	71,385	2,014	171,816
Charges for services. . . . .	-	-	-	-	194,970	194,970
Extracurricular. . . . .	-	-	-	-	119,444	119,444
Classroom materials and fees . . . . .	-	-	-	-	26,467	26,467
Other local revenues. . . . .	26,685	-	-	-	206,379	233,064
Intergovernmental - State. . . . .	4,716,897	60,509	-	113,017	76,027	4,966,450
Intergovernmental - Federal . . . . .	-	-	-	-	512,985	512,985
Total revenue . . . . .	<u>8,243,944</u>	<u>501,219</u>	<u>22,689</u>	<u>184,402</u>	<u>1,351,734</u>	<u>10,303,988</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular . . . . .	3,303,574	-	-	-	350,397	3,653,971
Special. . . . .	878,796	-	-	-	412,764	1,291,560
Vocational. . . . .	127,977	-	-	-	8,066	136,043
Support services:						
Pupil. . . . .	249,770	-	-	-	59,393	309,163
Instructional staff . . . . .	172,956	-	-	-	25,787	198,743
Board of education . . . . .	39,981	-	-	-	-	39,981
Administration. . . . .	656,536	-	-	-	24,203	680,739
Fiscal . . . . .	292,640	12,968	-	-	6,376	311,984
Operations and maintenance. . . . .	765,871	-	-	-	122,769	888,640
Pupil transportation . . . . .	652,566	-	-	-	38,852	691,418
Central. . . . .	71,797	-	-	-	-	71,797
Operation of non-instructional services:						
Food service operations. . . . .	-	-	-	-	298,594	298,594
Other non-instructional services. . . . .	-	-	-	-	11,830	11,830
Extracurricular activities. . . . .	198,502	-	-	-	148,722	347,224
Facilities acquisition and construction . . . .	-	-	103,734	937,239	-	1,040,973
Debt service:						
Principal retirement . . . . .	19,761	203,463	-	-	-	223,224
Interest and fiscal charges . . . . .	4,387	320,398	-	-	-	324,785
Total expenditures . . . . .	<u>7,435,114</u>	<u>536,829</u>	<u>103,734</u>	<u>937,239</u>	<u>1,507,753</u>	<u>10,520,669</u>
Excess of revenues over (under) expenditures. . . . .	<u>808,830</u>	<u>(35,610)</u>	<u>(81,045)</u>	<u>(752,837)</u>	<u>(156,019)</u>	<u>(216,681)</u>
<b>Other financing sources (uses):</b>						
Transfers in. . . . .	13,120	29,922	-	-	-	43,042
Transfers (out) . . . . .	(29,922)	-	-	-	(13,120)	(43,042)
Capital lease transaction . . . . .	140,150	-	-	-	-	140,150
Total other financing sources (uses) . . . . .	<u>123,348</u>	<u>29,922</u>	<u>-</u>	<u>-</u>	<u>(13,120)</u>	<u>140,150</u>
Net change in fund balances . . . . .	932,178	(5,688)	(81,045)	(752,837)	(169,139)	(76,531)
<b>Fund balances at beginning of year . . . . .</b>	<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>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,571,282</u>	<u>\$ 236,918</u>	<u>\$ 272,091</u>	<u>\$ 500,849</u>	<u>\$ 680,314</u>	<u>\$ 3,261,454</u>

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, 2008

<b>Net change in fund balances - total governmental funds</b>	\$	(76,531)
<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	\$ 1,181,428	
Depreciation expense	(826,639)	
Total		354,789
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(74,149)	
Intergovernmental	(21,646)	
Total		(95,795)
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.		
		223,224
Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(140,150)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement on activities:		
Decrease in accrued interest payable	141	
Accreted interest on capital appreciation bonds	(28,200)	
Amortization of bond premium	9,540	
Amortization of bond issuance costs	(9,381)	
Total		(27,900)
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.		
		(4,719)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>232,918</b>

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, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,487,760	\$ 2,844,657	\$ 2,829,917	\$ (14,740)
Tuition . . . . .	367,338	420,037	393,304	(26,733)
Earnings on investments . . . . .	60,365	69,025	73,721	4,696
Other local revenues . . . . .	24,946	28,525	22,435	(6,090)
Intergovernmental - State . . . . .	4,188,100	4,788,929	4,718,662	(70,267)
Total revenue . . . . .	<u>7,128,509</u>	<u>8,151,173</u>	<u>8,038,039</u>	<u>(113,134)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,209,764	3,233,266	3,240,319	(7,053)
Special . . . . .	867,862	885,519	853,631	31,888
Vocational . . . . .	82,551	118,457	120,167	(1,710)
Support services:				
Pupil . . . . .	327,746	279,794	245,750	34,044
Instructional staff . . . . .	251,532	190,905	176,222	14,683
Board of education . . . . .	40,466	45,218	42,657	2,561
Administration . . . . .	660,363	674,616	639,550	35,066
Fiscal . . . . .	278,642	291,158	289,379	1,779
Operations and maintenance . . . . .	685,741	789,369	765,645	23,724
Pupil transportation . . . . .	668,368	678,221	658,400	19,821
Central . . . . .	108,573	89,253	76,102	13,151
Extracurricular activities . . . . .	166,763	199,324	181,387	17,937
Debt service:				
Principal retirement . . . . .	250,000	250,000	250,000	-
Interest and fiscal charges . . . . .	10,453	10,453	10,453	-
Total expenditures . . . . .	<u>7,608,824</u>	<u>7,735,553</u>	<u>7,549,662</u>	<u>185,891</u>
Excess of revenues over (under) expenditures . . . . .	<u>(480,315)</u>	<u>415,620</u>	<u>488,377</u>	<u>72,757</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	8,745	10,000	366	(9,634)
Capital lease transaction . . . . .	122,435	140,000	140,150	150
Sale of capital assets . . . . .	48,537	55,500	55,108	(392)
Transfers in . . . . .	11,474	13,120	13,120	-
Transfers (out) . . . . .	(34,472)	(29,922)	(29,922)	-
Advances in . . . . .	73,461	84,000	68,980	(15,020)
Advances (out) . . . . .	(66,880)	(94,130)	(73,535)	20,595
Total other financing sources (uses) . . . . .	<u>163,300</u>	<u>178,568</u>	<u>174,267</u>	<u>(4,301)</u>
Net change in fund balance . . . . .	(317,015)	594,188	662,644	68,456
<b>Fund balance at beginning of year . . . . .</b>	820,408	820,408	820,408	-
<b>Prior year encumbrances appropriated . . . . .</b>	69,343	69,343	69,343	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 572,736</u>	<u>\$ 1,483,939</u>	<u>\$ 1,552,395</u>	<u>\$ 68,456</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, 2008

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 7,053	\$ 61,693
Receivables:		
Accrued interest. . . . .	79	-
Total assets. . . . .	7,132	\$ 61,693
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 171
Due to students . . . . .	-	61,522
Total liabilities . . . . .	-	\$ 61,693
<b>Net assets:</b>		
Held in trust for scholarships . . . . .	7,132	
Total net assets . . . . .	\$ 7,132	

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, 2008

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 338
Total additions. . . . .	338
<b>Deductions:</b>	
Scholarships awarded . . . . .	153
Change in net assets . . . . .	185
<b>Net assets at beginning of year . . . . .</b>	<b>6,947</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 7,132</b>

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, 2008**

**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 34 non-certified and 63 certified (including administrative) full-time and part-time employees to provide services to approximately 878 students in grades K through 12 and various community groups, which ranks it 520<sup>th</sup> out of 896 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).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

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

*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 2008.

*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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

*PUBLIC ENTITY RISK POOL*

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

**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; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for food service operations.

*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, 2008

**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, 2008

**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, 2008, but which were levied to finance fiscal year 2009 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, 2008 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities 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, 2008**

**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 2008 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 2008.
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, 2008**

**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, 2008; 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 2008, 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 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

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 2008 amounted to \$75,728, which includes \$34,306 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.

**G. Inventory**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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. During fiscal year 2008, the District increased its capitalization threshold from \$500 to \$5,000. 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:

Description	Governmental Activities <u>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.

**J. Compensated Absences**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2008, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or more with at least 10 years of service, or any employee with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008 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 and compensated absences 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 and capitalized leases are recognized as a liability in the fund financial statements when due.

**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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

**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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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 2008.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Prior Period Adjustment**

Beginning net assets of the governmental activities have been restated in order to account for a reappraisal of capital assets and a change in the capitalization threshold during fiscal year 2008. See Note 9 for detail. The adjustment had the following effect on net assets of the governmental activities at June 30, 2007:

	<u>Governmental Activities</u>
Net assets at June 30, 2007	\$ 18,469,650
Adjustment for capital assets	<u>2,397,574</u>
Restated net assets at July 1, 2007	<u>\$ 20,867,224</u>

**B. Change in Accounting Principles**

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 15) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**C. Deficit Fund Balances**

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 14,544
Internal service rotary	18,100
Entry year programs	37
Vocational education enhancement	66
Improving teacher quality	503

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

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;

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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, 2008, the District had \$433,886 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits with Financial Institutions**

At June 30, 2008, the carrying amount of all District deposits was \$2,180,045. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2008, \$1,995,192 of the District’s bank balance of \$2,302,424 was exposed to custodial risk as discussed below, while \$307,232 was covered by the Federal Deposit Insurance Corporation.

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

**D. Investments**

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturities 6 months or <u>less</u>
STAR Ohio	\$ 1,335,521	\$ 1,335,521
Total	<u>\$ 1,335,521</u>	<u>\$ 1,335,521</u>

*Interest Rate Risk:* Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

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

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,335,521	100.00
Total	<u>\$ 1,335,521</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 note above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,180,045
Investments	1,335,521
Cash in segregated accounts	433,886
Cash on hand	<u>400</u>
Total	<u>\$ 3,949,852</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,881,106
Private-purpose trust fund	7,053
Agency funds	<u>61,693</u>
Total	<u>\$ 3,949,852</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	
Bond retirement fund	\$ 29,922
Transfers from nonmajor governmental funds to:	
General fund	13,120

The purpose of the transfer to the general fund was a residual equity transfer to close the telecommunications grant fund, a nonmajor governmental fund. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund balances at June 30, 2008, 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	\$ 73,535

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, 2008 are reported on the statement of net assets.

- C.** Interfund balances at June 30, 2008, 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	\$ 2,000

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, 2008 are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2008, 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 year 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Tangible personal property tax revenue received during calendar year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property is assessed at 12.50% for property including inventory. This percentage was reduced to 6.25% for 2008, and will be reduced to 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 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2008, are available to finance fiscal year 2008 operations. The amounts available as an advance at June 30, 2008 were \$129,391 in the general fund, \$33,373 in the bond retirement fund, \$13,799 in the permanent improvement fund, a nonmajor governmental fund and \$2,465 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, 2008 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.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second		2008 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 71,168,360	91.67	\$ 82,344,280	93.07
Public utility personal	2,901,068	3.74	2,546,640	2.88
Tangible personal property	<u>3,566,160</u>	<u>4.59</u>	<u>3,582,560</u>	<u>4.05</u>
Total	<u>\$ 77,635,588</u>	<u>100.00</u>	<u>\$ 88,473,480</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 31.20		\$ 31.20	
Permanent improvement	5.00		5.00	
Bond retirement	6.45		6.00	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2008 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	\$ 3,082,012
Accounts	788
Intergovernmental	26,526
Accrued interest	<u>4,001</u>
Total	<u>\$ 3,113,327</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 \$1,390,207 for fiscal year 2008. Taxes receivable reported in the basic financial statements includes \$564,187 of income tax receivable.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 9 - CAPITAL ASSETS**

Capital assets have been restated due to a reappraisal and change in the capitalization threshold during fiscal year 2008. The restatement increased the net capital asset balance by \$2,397,574 at June 30, 2007.

	<u>Balance</u> <u>6/30/07</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/07</u>
<b>Governmental activities:</b>			
Capital assets, not being depreciated:			
Land	\$ 292,500	\$ (42,500)	\$ 250,000
Total capital assets, not being depreciated	<u>292,500</u>	<u>(42,500)</u>	<u>250,000</u>
Capital assets, being depreciated:			
Land improvements	646,661	2,910,077	3,556,738
Building and improvements	21,632,920	(475,827)	21,157,093
Furniture and equipment	1,083,961	(695,540)	388,421
Vehicles	598,996	169,637	768,633
Total capital assets, being depreciated	<u>23,962,538</u>	<u>1,908,347</u>	<u>25,870,885</u>
Less: accumulated depreciation			
Land improvements	(57,594)	(35,729)	(93,323)
Building and improvements	(283,753)	228,433	(55,320)
Furniture and equipment	(654,376)	561,186	(93,190)
Vehicles	(429,556)	(222,163)	(651,719)
Total accumulated depreciation	<u>(1,425,279)</u>	<u>531,727</u>	<u>(893,552)</u>
Governmental activities capital assets, net	<u>\$ 22,829,759</u>	<u>\$ 2,397,574</u>	<u>\$ 25,227,333</u>

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CAPITAL ASSETS - (Continued)**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Restated Balance <u>7/1/07</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/08</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Total capital assets, not being depreciated	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	3,556,738	191,720	-	3,748,458
Buildings and improvements	21,157,093	563,336	-	21,720,429
Furniture and equipment	388,421	288,372	-	676,793
Vehicles	768,633	138,000	(73,739)	832,894
Total capital assets, being depreciated	<u>25,870,885</u>	<u>1,181,428</u>	<u>(73,739)</u>	<u>26,978,574</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(93,323)	(182,630)	-	(275,953)
Buildings and improvements	(55,320)	(544,760)	-	(600,080)
Furniture and equipment	(93,190)	(46,750)	-	(139,940)
Vehicles	(651,719)	(52,499)	73,739	(630,479)
Total accumulated depreciation	<u>(893,552)</u>	<u>(826,639)</u>	<u>73,739</u>	<u>(1,646,452)</u>
Governmental activities capital assets, net	<u>\$ 25,227,333</u>	<u>\$ 354,789</u>	<u>\$ -</u>	<u>\$ 25,582,122</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 460,287
Special	73,953
Vocational	13,464
<u>Support services:</u>	
Pupil	14,327
Instructional staff	13,834
Administration	56,149
Fiscal	17,120
Operations and maintenance	29,159
Pupil transportation	52,499
Central	7,096
Extracurricular activities	64,535
Food service operations	<u>24,216</u>
Total depreciation expense	<u>\$ 826,639</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2008, the District entered into a lease-purchase for the acquisition of two school buses. In prior years, the District has entered into a lease for the acquisition of copiers. These leases meet 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 transactions were 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.

Capital assets consisting of vehicles and equipment have been capitalized in the amount of \$138,000 and \$95,667, respectively. These amounts represent the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 for vehicles and equipment was \$8,625 and \$82,911, respectively, leaving a current book value of \$129,375 and \$31,889, respectively. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2008 totaled \$19,761 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2008.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2009	\$ 58,146
2010	39,204
2011	39,204
2012	<u>39,203</u>
Total minimum lease payment	175,757
Less: amount representing interest	<u>(16,952)</u>
Present value of minimum lease payments	<u><u>\$ 158,805</u></u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. The following is a description of the District's long-term debt obligations outstanding as of June 30, 2008:

	Balance Outstanding <u>6/30/07</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>6/30/08</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
General obligation current interest bonds	\$ 7,155,000	\$ -	\$ (175,000)	\$ 6,980,000	\$ 190,000
General obligation capital appreciation bonds	195,265	-	-	195,265	-
General obligation capital appreciation bonds-accreted interest	71,108	28,200	-	99,308	-
Notes payable	28,463	-	(28,463)	-	-
Capital lease obligations payable	38,416	140,150	(19,761)	158,805	51,341
Compensated absences payable	<u>397,888</u>	<u>71,437</u>	<u>(46,409)</u>	<u>422,916</u>	<u>55,875</u>
Total long-term obligations	<u>\$ 7,886,140</u>	<u>\$ 239,787</u>	<u>\$ (269,633)</u>	7,856,294	<u>\$ 297,216</u>
				Add: Unamortized premium on bonds	<u>104,942</u>
				Total on statement of net assets	<u>\$ 7,961,236</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 \$99,308 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, matured on July 1, 2007, and carried 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Capital lease obligations: The capital lease obligations 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, 2008 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>
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	-	298,608	298,608	92,725	127,275	220,000
2014 - 2018	1,200,000	1,400,665	2,600,665	-	-	-
2019 - 2023	1,475,000	1,122,404	2,597,404	-	-	-
2024 - 2028	1,855,000	743,343	2,598,343	-	-	-
2029 - 2031	1,840,000	235,750	2,075,750	-	-	-
Total	<u>\$ 6,980,000</u>	<u>\$ 5,033,685</u>	<u>\$ 12,013,685</u>	<u>\$ 195,265</u>	<u>\$ 244,735</u>	<u>\$ 440,000</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 had an annual interest rate of 4.24% and matured on November 1, 2007. The note was receipted into the general fund and was recorded as a liability and paid from 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.

Postemployment 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  
CHAMPAIGN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 13 - RISK MANAGEMENT - (Continued)**

During fiscal year 2008, the District participated in a joint self-insurance pool pursuant to Revised Code Section 2744.081 administered through the Schools of Ohio Risk Sharing Authority (SORSA). Insurances are provided by SORSA through a self-funded plan. Reinsurance is provided by The Travelers Insurance Companies and United Educators for all liability protection. Coverages provided by SORSA are as follows:

Building and contents - replacement cost	\$24,492,517
Automobile liability	6,000,000
Uninsured motorists	2,000,000
Crime	100,000
General liability:	
Per occurrence	5,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2007.

*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**

Plan Description - 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 14 - PENSION PLANS - (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$83,087, \$78,210 and \$75,938, respectively; 40.04 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 14 - PENSION PLANS - (Continued)**

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$414,379, \$391,651 and \$438,790, respectively; 81.78 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$6,160 made by the District and \$17,203 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or STRS of Ohio have an option to choose Social Security or the SERS/STRS of Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the SERS for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$51,124, \$43,107 and \$39,230, respectively; 40.04 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,987, \$5,318 and \$6,044, respectively; 40.04 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)**

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the STRS Ohio for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$31,875, \$30,127 and \$33,753, respectively; 81.78 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**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); and
- (d) Advances-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, 2008

**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	\$ 662,644
Net adjustment for revenue accruals	205,905
Net adjustment for expenditure accruals	63,277
Net adjustment for other sources/uses	(50,919)
Adjustment for encumbrances	<u>51,271</u>
GAAP basis	<u>\$ 932,178</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**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, 2008, the reserve activity was as follows:

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	BWC <u>Refund</u>
Set-aside balance/carry forward as of June 30, 2007	\$ (13,001)	\$ (8,122,122)	\$ 24,392
Current year set-aside requirement	137,285	137,285	-
Qualifying disbursements	<u>(127,727)</u>	<u>(765,499)</u>	<u>-</u>
Total	<u>\$ (3,443)</u>	<u>\$ (8,750,336)</u>	<u>\$ 24,392</u>
Balance carried forward to FY 2009	<u>\$ (3,443)</u>	<u>\$ (8,122,122)</u>	<u>\$ 24,392</u>

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 textbooks/instructional materials set-aside below zero may be carried forward and used to reduce the set-aside requirement in future years.

A schedule of the restricted assets at June 30, 2008 follows:

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

## **SUPPLEMENTARY DATA**

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>				
(C) Food Donation	10.550	2008	\$ 11,628	\$ 11,628
<b>Total Food Donation</b>			<u>11,628</u>	<u>11,628</u>
(D) National School Lunch Program	10.555	2007	7,396	7,396
(D) National School Lunch Program	10.555	2008	63,305	63,305
<b>Total National School Lunch Program</b>			<u>70,701</u>	<u>70,701</u>
<b>Total U.S. Department of Agriculture</b>			<u>82,329</u>	<u>82,329</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>				
Title I Grants to Local Educational Agencies	84.010	2007	37,977	67,920
Title I Grants to Local Educational Agencies	84.010	2008	189,931	189,844
<b>Total Title I Grants to Local Educational Agencies</b>			<u>227,908</u>	<u>257,764</u>
Special Education Grants to States	84.027	2007	23,302	20,279
Special Education Grants to States	84.027	2008	172,208	191,358
<b>Total Special Education Grants to States</b>			<u>195,510</u>	<u>211,637</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	2007	398	-
Safe and Drug-Free Schools and Communities State Grants	84.186	2008	4,078	4,078
<b>Total Safe and Drug-Free Schools and Communities State Grants</b>			<u>4,476</u>	<u>4,078</u>
State Grants for Innovative Programs	84.298	2007	111	-
State Grants for Innovative Programs	84.298	2008	626	1,256
<b>Total State Grants for Innovative Programs</b>			<u>737</u>	<u>1,256</u>
Education Technology State Grants	84.318	2007	987	-
Education Technology State Grants	84.318	2008	1,962	1,977
<b>Total Education Technology State Grants</b>			<u>2,949</u>	<u>1,977</u>
Improving Teacher Quality State Grants	84.367	2007	731	3,731
Improving Teacher Quality State Grants	84.367	2008	38,588	39,150
<b>Total Improving Teacher Quality State Grants</b>			<u>39,319</u>	<u>42,881</u>
<b>Total U.S. Department of Education</b>			<u>470,899</u>	<u>519,593</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 553,228</u>	<u>\$ 601,922</u>

- (A) OAKS did not assign pass-through numbers for fiscal year 2008.  
 (B) This schedule was prepared on the cash basis of accounting.  
 (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.  
 (D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.

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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, 2008, which collectively comprise Mechanicsburg Exempted Village School District's basic financial statements and have issued our report thereon dated December 29, 2008. As disclosed in Note 3.A., Mechanicsburg Exempted Village School District has restated its net assets at July 1, 2007 to properly state its capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 the deficiencies described in the accompanying schedule of findings and responses as 2008-MEVSD-001 and 2008-MEVSD-002 to be significant deficiencies 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, of the significant deficiencies described above, we consider item 2008-MEVSD-001 to be a material weakness.

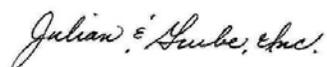
#### Compliance and Other Matters

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*.

We noted certain matters that we reported to the management of Mechanicsburg Exempted Village School District in a separate letter dated December 29, 2008.

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

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



Julian & Grube, Inc.  
December 29, 2008



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### **Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

#### Compliance

We have audited the compliance of Mechanicsburg Exempted Village School District, Champaign County, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008. Mechanicsburg Exempted Village School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mechanicsburg Exempted Village School District's management. Our responsibility is to express an opinion on Mechanicsburg Exempted Village School District's compliance based on our audit.

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

In our opinion, Mechanicsburg Exempted Village School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

#### Internal Control Over Compliance

The management of Mechanicsburg Exempted Village School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mechanicsburg Exempted Village School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mechanicsburg Exempted Village School District's internal control over compliance.

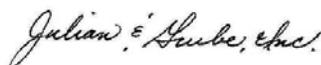
Board of Education  
Mechanicsburg Exempted Village School District

A control deficiency in Mechanicsburg Exempted Village School District's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program 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 administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Mechanicsburg Exempted Village School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Mechanicsburg Exempted Village School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Julian & Grube, Inc.  
December 29, 2008

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

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2008**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Special Education Grants to States - CFDA #84.027 and Title I Grants to Local Educational Agencies - CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2008**

<b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2008-MEVSD-001

Significant Deficiency/Material Weakness

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. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

We identified a misstatement in the financials statements for the fiscal year under audit that was not initially identified by the District's internal control. An audit adjustment was necessary to correct the error in the District's financial statements and notes. A description of the adjustments follows:

**Property Tax Revenue** - The District received advances of property tax revenue from the Champaign County Auditor during the fiscal year. Advances reported on the final tax settlement sheet were not consistent with what the District actually received and recorded from prior tax settlements. The inconsistencies resulted in the improper recording of property tax revenue in several funds. Revenue was overstated by \$190, \$36,656 and \$2,045 in the General, Bond Retirement and Classroom Facilities Maintenance funds, respectively, and understated by \$38,891 in the Permanent Improvement Fund. An audit adjustment was made to properly record tax revenue in the respective funds.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. We recommend that the District implement control procedures that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

Client Response: In the future, the District will more closely scrutinize the County Auditor's paperwork for accuracy.

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

**SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2008**

<b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2008-MEVSD-002

The District presented capital assets and related depreciation expense and accumulated depreciation in their financial statements based on a valuation by an outside firm. Amounts reported at June 30, 2007 and during fiscal year 2008 for capital assets, accumulated depreciation and depreciation expense, respectively, were improperly reported.

These discrepancies in capital assets and accumulated depreciation resulted in an increase of \$1,865,847 and a decrease of \$531,727, respectively. This resulted in a prior period adjustment to net assets in the amount of \$2,397,574. A current year adjustment in the amount of \$353,632 for depreciation expense was also necessary.

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

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

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

*Client Response:* The District was proactive in obtaining a complete reevaluation of its capital assets upon completion of a new K-12 school building and disposal of old complex buildings.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT  
CHAMPAIGN COUNTY, OHIO  
JUNE 30, 2008**

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .505**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid; Explain:</u></b>
2007-MEVSD-001	SAS-112 significant deficiency over properly recording expenditures made from the Building Fund, which should have been recorded in the Classroom Facilities Fund.	Yes	N/A



**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**  
**FEBRUARY 24, 2009**