

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

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

BARB DONOHUE, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mount Vernon City School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 13, 2011

This Page is Intentionally Left Blank.

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

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	19
Statement of Net Assets - Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.....	21
Statement of Cash Flows - Proprietary Fund.....	22
Statement of Fiduciary Net Assets - Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund.....	24
Notes to the Basic Financial Statements.....	25 - 54
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	55 - 56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	57 - 58
Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	59 - 60
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	61 - 63
Status of Prior Audit Findings <i>OMB Circular A-133 §.505</i>	64



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

To the Members of the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Mount Vernon City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mount Vernon City 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of the Mount Vernon City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditor's Report
Mount Vernon City School District
Page Two

We conducted our audit to opine on the financial statements that collectively comprise the Mount Vernon City School District's basic financial statements. The schedule of receipts and expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. We subjected the schedule of receipts and expenditures of federal awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
November 19, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Mount Vernon City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- The District restated net assets and fund balances at June 30, 2009 as described in Note 3.B to the basic financial statements. In total, net assets of governmental activities decreased \$2,026,172 which represents a 11.12% decrease from 2009.
- General revenues accounted for \$29,831,135 in revenue or 79.63% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,630,418 or 20.37% of total revenues of \$37,461,553.
- The District had \$39,487,725 in expenses related to governmental activities; \$7,630,418 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$29,831,135 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$29,636,333 in revenues and \$31,893,542 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$2,257,209 from a restated balance of \$8,412,515 to \$6,155,306.
- The bond retirement fund had \$705,164 in revenues and other financing sources and \$905,795 in expenditures. During fiscal year 2010, the bond retirement fund's fund balance decreased \$200,631 from \$2,591,845 to \$2,391,214.

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 and bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 fiscal year 2010?" 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 and 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 and bond retirement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that 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.

Proprietary Funds

The District maintains one proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for self-insurance programs. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-54 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009. The net assets of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

	Governmental Activities <u>2010</u>	Restated Governmental Activities <u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 24,809,947	\$ 26,806,023
Capital assets, net	<u>13,163,483</u>	<u>13,545,164</u>
Total assets	<u>37,973,430</u>	<u>40,351,187</u>
<u>Liabilities</u>		
Current liabilities	13,074,594	12,851,379
Long-term liabilities	<u>8,709,025</u>	<u>9,283,825</u>
Total liabilities	<u>21,783,619</u>	<u>22,135,204</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	6,296,495	5,991,573
Restricted	5,004,801	4,741,585
Unrestricted	<u>4,888,515</u>	<u>7,482,825</u>
Total net assets	<u>\$ 16,189,811</u>	<u>\$ 18,215,983</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$16,189,811. Of this total, \$4,888,515 is unrestricted in use.

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

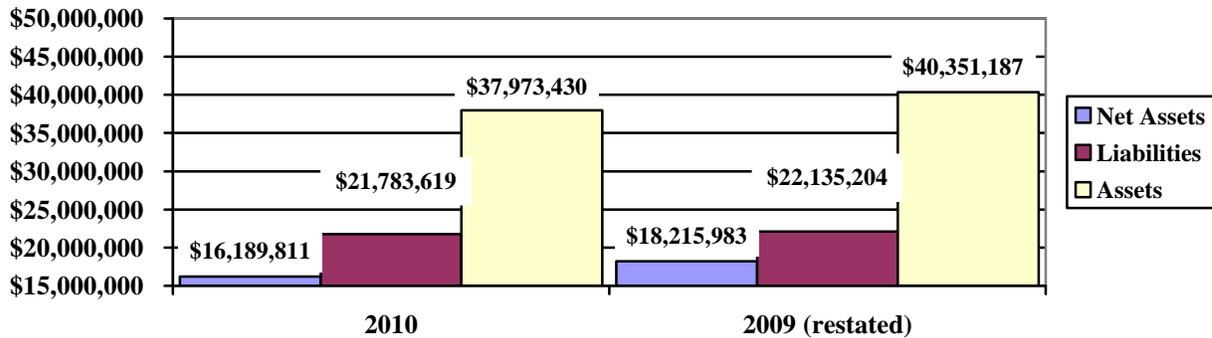
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

At fiscal year-end, capital assets represented 34.66% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$6,296,495. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$5,004,801, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4,888,515 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the District's assets, liabilities and net assets at June 30, 2010 and June 30, 2009. The net assets of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

Governmental Activities



The table below shows the changes in net assets for governmental activities for fiscal years 2010 and 2009. The net assets of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

Change in Net Assets

	Governmental Activities 2010	Restated Governmental Activities 2009
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,149,752	\$ 1,951,376
Operating grants and contributions	5,480,666	4,030,051
Capital grants and contributions	-	33,152
General revenues:		
Property taxes	13,603,211	16,076,748
Payments in lieu of taxes	540,091	447,686
Grants and entitlements	15,632,694	15,315,758
Investment earnings	25,221	205,308
Other	29,918	33,661
Total revenues	37,461,553	38,093,740

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Change in Net Assets	
	Governmental	Restated
	Activities	Governmental
	<u>2010</u>	<u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 18,050,238	\$ 17,769,188
Special	4,127,136	4,170,514
Vocational	422,375	392,430
Support services:		
Pupil	2,253,804	1,864,985
Instructional staff	2,351,342	2,600,157
Board of education	69,338	30,094
Administration	2,600,858	2,820,194
Fiscal	2,548,377	2,342,902
Business	68,404	185,168
Operations and maintenance	3,075,714	2,869,598
Pupil transportation	1,247,815	1,483,630
Central	143,599	151,100
Operation of non-instructional services:		
Other non-instructional services	154,022	233,821
Food service operations	1,333,902	1,307,052
Extracurricular activities	732,917	734,747
Interest and fiscal charges	<u>307,884</u>	<u>356,151</u>
Total expenses	<u>39,487,725</u>	<u>39,311,731</u>
Change in net assets	(2,026,172)	(1,217,991)
Net assets at beginning of year (restated)	<u>18,215,983</u>	<u>19,433,974</u>
Net assets at end of year	<u>\$ 16,189,811</u>	<u>\$ 18,215,983</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$2,026,172. Total governmental expenses of \$39,487,725 were offset by program revenues of \$7,630,418 and general revenues of \$29,831,135. Program revenues supported 19.32% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 78.04% of total governmental revenue.

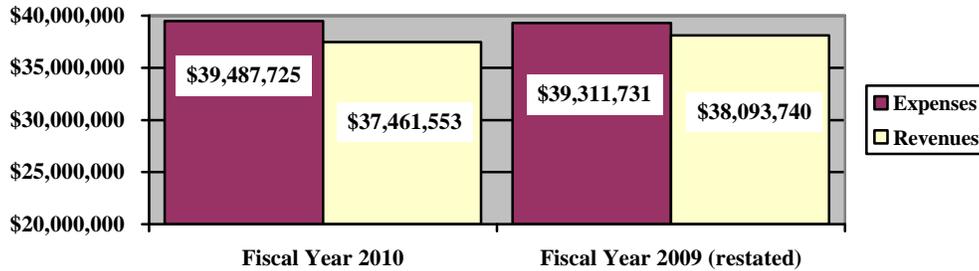
The largest expense of the District is for instructional programs. Instruction expenses totaled \$22,599,749 or 57.23% of total governmental expenses for fiscal year 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2010 and 2009. The net assets of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

Governmental Activities - Revenues and Expenses



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 for fiscal years 2010 and 2009. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 18,050,238	\$ 16,001,243	\$ 17,769,188	\$ 16,150,466
Special	4,127,136	2,571,702	4,170,514	2,273,141
Vocational	422,375	371,036	392,430	341,496
Support services:				
Pupil	2,253,804	1,429,504	1,864,985	1,603,008
Instructional staff	2,351,342	1,767,465	2,600,157	2,205,361
Board of education	69,338	69,338	30,094	30,094
Administration	2,600,858	2,304,464	2,820,194	2,777,392
Fiscal	2,548,377	2,443,736	2,342,902	2,332,485
Business	68,404	68,404	185,168	185,168
Operations and maintenance	3,075,714	2,692,760	2,869,598	2,837,721
Pupil transportation	1,247,815	1,115,106	1,483,630	1,349,735
Central	143,599	143,559	151,100	150,113
Operation of non-instructional services:				
Other non-instructional services	154,022	(30,757)	233,821	18,027
Food service operations	1,333,902	4,901	1,307,052	83,455
Extracurricular activities	732,917	596,962	734,747	603,339
Interest and fiscal charges	<u>307,884</u>	<u>307,884</u>	<u>356,151</u>	<u>356,151</u>
Total expenses	<u>\$ 39,487,725</u>	<u>\$ 31,857,307</u>	<u>\$ 39,311,731</u>	<u>\$ 33,297,152</u>

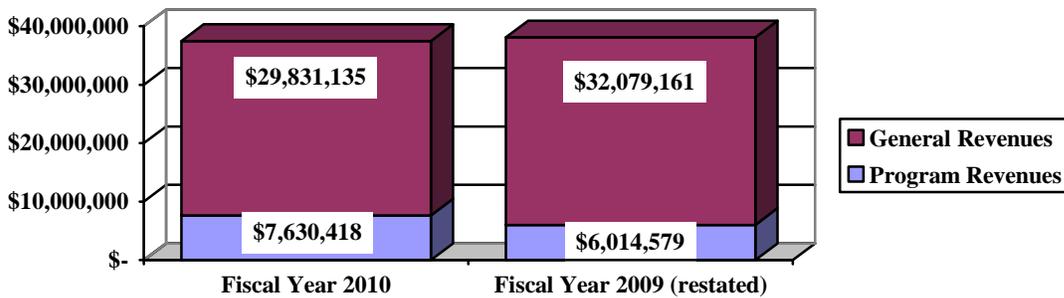
**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The dependence upon tax and other general revenues for governmental activities is apparent, 83.82% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.68%. The District's taxpayers and grants and entitlements received from the State of Ohio that are not restricted in use are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009. The net assets of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$10,288,720, which is lower than last year's total of \$12,793,609. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and June 30, 2009. The fund balances of the District were restated at June 30, 2009 as described in Note 3.B to the basic financial statements.

	Fund Balance June 30, 2010	Restated Fund Balance June 30, 2009	Decrease	Percentage Change
General	\$ 6,155,306	\$ 8,412,515	\$ (2,257,209)	(26.83) %
Bond Retirement	2,391,214	2,591,845	(200,631)	(7.74) %
Other Governmental	1,742,200	1,789,249	(47,049)	(2.63) %
Total	\$ 10,288,720	\$ 12,793,609	\$ (2,504,889)	(19.58) %

General Fund

The District's general fund balance decreased \$2,257,209 during fiscal year 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	2010 <u>Amount</u>	Restated 2009 <u>Amount</u>	Increase/ <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 12,423,464	\$ 14,287,534	\$ (1,864,070)	(13.05) %
Tuition and fees	1,271,269	1,183,533	87,736	7.41 %
Earnings on investments	19,080	143,649	(124,569)	(86.72) %
Intergovernmental	15,339,464	16,133,083	(793,619)	(4.92) %
Payments in lieu of taxes	538,545	447,686	90,859	20.30 %
Other revenues	44,511	41,538	2,973	7.16 %
Total	<u>\$ 29,636,333</u>	<u>\$ 32,237,023</u>	<u>\$ (2,600,690)</u>	(8.07) %
<u>Expenditures</u>				
Instruction	\$ 19,878,315	\$ 20,507,183	\$ (628,868)	(3.07) %
Support services	11,214,507	11,816,087	(601,580)	(5.09) %
Extracurricular activities	529,529	524,317	5,212	0.99 %
Capital outlay	-	46,385	(46,385)	(100.00) %
Debt service	63,841	109,403	(45,562)	(41.65) %
Total	<u>\$ 31,686,192</u>	<u>\$ 33,003,375</u>	<u>\$ (1,317,183)</u>	(3.99) %

Revenues of the general fund decreased \$2,600,690 or 8.07%. The most significant decreases were in the areas of taxes, earnings on investments and intergovernmental revenue. Tax revenue decreased \$1,864,070 or 13.05%. This decrease is primarily due to variances in the amount of tax advance that was available to the District from the county auditor at the end of fiscal years 2010, 2009 and 2008. Tax advances available in the general fund at June 30, 2010, June 30, 2009 and June 30, 2008 were \$5,030,580, \$5,062,004 and \$3,288,391, respectively. The amount of tax advances available from the County Auditor can vary depending upon when tax bills are mailed. Earnings on investments decreased \$124,569 or 86.72% due to declining interest rates in fiscal year 2010. Intergovernmental revenue decreased \$793,619 or 4.92% mainly due to a decrease in foundation revenue, which is now attributable to the education stabilization fund, a nonmajor governmental fund.

Expenditures of the general fund decreased \$1,317,183 or 3.99%. The most significant decreases were in the areas of instruction and support services expenditures. These decreases are attributable to the District's effort to remain fiscally responsible during difficult economic times.

Bond Retirement Fund

The bond retirement fund had \$705,164 in revenues and other financing sources and \$905,795 in expenditures. During fiscal year 2010, the bond retirement fund's fund balance decreased \$200,631 from \$2,591,845 to \$2,391,214.

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 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$29,916,188 and final budgeted revenues and other financing sources were \$29,779,131. Actual revenues and other financing sources for fiscal year 2010 were \$29,779,342. This represents a \$211 increase from final budgeted amounts.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$35,738,129, which were 2,895,054 more than final budgeted amounts. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$32,058,966, which was \$784,109 less than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$13,163,483 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2010 balances compared to June 30, 2009 balances:

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

	Governmental Activities	
	2010	2009
Land	\$ 230,664	\$ 230,664
Land improvements	29,971	21,862
Building and improvements	11,171,656	11,584,407
Furniture, fixtures and equipment	782,430	825,628
Vehicles	948,762	882,603
Total	\$ 13,163,483	\$ 13,545,164

The overall decrease in capital assets of \$381,681 is due to depreciation expense of \$693,197 exceeding capital outlays of \$311,516 in the fiscal year.

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

Debt Administration

At June 30, 2010, the District had \$5,955,000 in series 2005 current interest bonds, \$255,000 in capital appreciation bonds, \$167,518 in accreted interest, \$621,625 in energy conservation loans and \$35,363 in capital lease obligations. Of this total, \$569,495 is due within one year and \$6,465,011 is due in more than one year. The following table summarizes the bonds, loans and capital lease obligations outstanding.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Outstanding Debt, at Year End

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Refunding bonds - series 2005		
Current interest bonds	\$ 5,955,000	\$ 6,425,000
Capital appreciation bonds	255,000	255,000
Accreted interest	167,518	129,074
Energy conservation loan - 2000	-	83,276
Energy conservation loan - 2008	621,625	695,305
Capital leases	<u>35,363</u>	<u>95,010</u>
 Total	 <u>\$ 7,034,506</u>	 <u>\$ 7,682,665</u>

At June 30, 2010, the District's overall legal debt margin was \$45,174,424 and an unvoted debt margin of \$544,369. See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District continues to receive support from the residents. The District passed an emergency levy in May 2009, which will bring in \$1,625,000 over the proceeding five years. The District has two more emergency levies to pass in the next couple of years. Considering the current economic situation, the forecast does not assume any growth in real estate taxes. The State has subsidized 6% of its funding to the District with federal dollars, which will only last for a short time. After the loss of federal dollars, the State will have to come up with the 6% or the District will lose approximately \$800,000 per year. The District is considering levy options because the levies are not sufficient with the decrease in State funding.

The enrollment of the District has increased in recent years, but because of the gain cap in the State Biennial Budget (HB1), the District will receive no additional dollars for the students. How the legislature plans to fund education programs during a weakened economy remains a concern. The current five year forecast for the District projects a deficit cash balance for fiscal years 2012, 2013 and 2014. The District has made cuts and will continue to look at ways to reduce spending. The District must continue to maintain financial planning and prudent fiscal management.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Barbara J. Donohue, Treasurer, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 10,741,476
Receivables:	
Taxes	13,505,342
Accounts.	3,586
Intergovernmental	181,452
Accrued interest	2,831
Payments in lieu of taxes	357,261
Prepayments	2,359
Materials and supplies inventory.	15,640
Capital assets:	
Land	230,664
Depreciable capital assets, net.	12,932,819
Capital assets, net	13,163,483
Total assets.	37,973,430
Liabilities:	
Accounts payable.	197,746
Accrued wages and benefits	2,859,317
Pension obligation payable.	741,484
Intergovernmental payable	124,878
Accrued interest payable	20,565
Unearned revenue	8,658,212
Claims payable.	472,392
Long-term liabilities:	
Due within one year.	815,244
Due in more than one year.	7,893,781
Total liabilities	21,783,619
Net Assets:	
Invested in capital assets, net of related debt.	6,296,495
Restricted for:	
Capital projects	1,833,771
Debt service.	2,372,361
Locally funded projects	357
State funded projects	32,541
Federally funded projects	13,028
Public school support	17,696
Student activities	48,851
Other purposes	686,196
Unrestricted.	4,888,515
Total net assets	\$ 16,189,811

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 18,050,238	\$ 1,402,523	\$ 646,472	\$ (16,001,243)
Special	4,127,136	-	1,555,434	(2,571,702)
Vocational	422,375	-	51,339	(371,036)
Support services:				
Pupil	2,253,804	89,203	735,097	(1,429,504)
Instructional staff	2,351,342	5,024	578,853	(1,767,465)
Board of education	69,338	-	-	(69,338)
Administration	2,600,858	-	296,394	(2,304,464)
Fiscal	2,548,377	-	104,641	(2,443,736)
Business	68,404	-	-	(68,404)
Operations and maintenance	3,075,714	14,593	368,361	(2,692,760)
Pupil transportation	1,247,815	2,167	130,542	(1,115,106)
Central	143,599	-	40	(143,559)
Operation of non-instructional services:				
Other non-instructional services	154,022	-	184,779	30,757
Food service operations	1,333,902	502,880	826,121	(4,901)
Extracurricular activities	732,917	133,362	2,593	(596,962)
Interest and fiscal charges	307,884	-	-	(307,884)
Total	\$ 39,487,725	\$ 2,149,752	\$ 5,480,666	(31,857,307)
General Revenues:				
Property taxes levied for:				
General purposes				12,417,227
Debt service				377,077
Capital projects				808,907
Payments in lieu of taxes				540,091
Grants and entitlements not restricted to specific programs				15,632,694
Investment earnings				25,221
Miscellaneous				29,918
Total general revenues				29,831,135
Change in net assets				(2,026,172)
Net assets at beginning of year (restated)				18,215,983
Net assets at end of year				\$ 16,189,811

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 4,111,047	\$ 2,244,912	\$ 2,234,274	\$ 8,590,233
Receivables:				
Taxes	12,307,587	416,010	781,745	13,505,342
Accounts.	1,363	-	2,121	3,484
Intergovernmental	14,572	-	166,880	181,452
Accrued interest	2,653	-	33	2,686
Interfund receivable.	35,700	-	-	35,700
Loans to other funds.	17,178	-	-	17,178
Payments in lieu of taxes	357,261	-	-	357,261
Prepayments.	2,359	-	-	2,359
Materials and supplies inventory.	-	-	15,640	15,640
Restricted assets:				
Equity in pooled cash and cash equivalents	612,612	-	-	612,612
Total assets	<u>\$ 17,462,332</u>	<u>\$ 2,660,922</u>	<u>\$ 3,200,693</u>	<u>\$ 23,323,947</u>
Liabilities:				
Accounts payable	\$ 136,185	\$ -	\$ 61,561	\$ 197,746
Accrued wages and benefits.	2,610,511	-	248,806	2,859,317
Compensated absences payable	134,715	-	23,894	158,609
Pension obligation payable	671,985	-	69,499	741,484
Intergovernmental payable	109,290	-	15,588	124,878
Interfund payable	-	-	35,700	35,700
Loans from other funds	-	-	17,178	17,178
Deferred revenue	88,836	1,712	151,555	242,103
Unearned revenue.	7,555,504	267,996	834,712	8,658,212
Total liabilities.	<u>11,307,026</u>	<u>269,708</u>	<u>1,458,493</u>	<u>13,035,227</u>
Fund Balances:				
Reserved for encumbrances.	331,635	-	610,074	941,709
Reserved for materials and supplies inventory	-	-	15,640	15,640
Reserved for prepayments	2,359	-	-	2,359
Reserved for tax revenue unavailable for appropriation	5,030,580	146,302	328,164	5,505,046
Reserved for loans to other funds.	17,178	-	-	17,178
Reserved for textbooks/instructional supplies	612,612	-	-	612,612
Reserved for debt service	-	2,244,912	-	2,244,912
Unreserved, undesignated (deficit), reported in:				
General fund.	160,942	-	-	160,942
Special revenue funds	-	-	(249,004)	(249,004)
Capital projects funds	-	-	1,037,326	1,037,326
Total fund balances	<u>6,155,306</u>	<u>2,391,214</u>	<u>1,742,200</u>	<u>10,288,720</u>
Total liabilities and fund balances	<u>\$ 17,462,332</u>	<u>\$ 2,660,922</u>	<u>\$ 3,200,693</u>	<u>\$ 23,323,947</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$ 10,288,720
<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.		13,163,483
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 85,613	
Intergovernmental receivable	154,745	
Accrued interest receivable	1,745	
Total		242,103
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		1,066,486
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(20,565)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences payable	(1,515,910)	
Capital lease obligations payable	(35,363)	
Energy conservation loans payable	(621,625)	
General obligation bonds payable	(6,377,518)	
Total		(8,550,416)
Net assets of governmental activities		\$ 16,189,811

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 12,423,464	\$ 380,140	\$ 809,500	\$ 13,613,104
Tuition.	1,269,102	-	18,590	1,287,692
Transportation fees.	2,167	-	-	2,167
Charges for services	-	-	502,880	502,880
Earnings on investments	19,080	-	1,241	20,321
Extracurricular.	-	-	223,824	223,824
Classroom materials and fees	-	-	112,534	112,534
Rental income	14,593	-	-	14,593
Contributions and donations	6,945	-	15,562	22,507
Other local revenues	22,973	-	6,062	29,035
Payments in lieu of taxes	538,545	750	796	540,091
Intergovernmental - state	15,339,464	145,984	801,031	16,286,479
Intergovernmental - federal	-	-	4,659,302	4,659,302
Total revenues.	<u>29,636,333</u>	<u>526,874</u>	<u>7,151,322</u>	<u>37,314,529</u>
Expenditures:				
Current:				
Instruction:				
Regular.	17,014,615	-	1,057,056	18,071,671
Special	2,505,932	-	1,597,888	4,103,820
Vocational	357,768	-	-	357,768
Support services:				
Pupil	1,400,176	-	847,467	2,247,643
Instructional staff	1,443,010	-	823,770	2,266,780
Board of education	69,338	-	-	69,338
Administration	2,241,384	-	298,451	2,539,835
Fiscal	2,346,497	12,897	124,421	2,483,815
Business.	69,286	-	-	69,286
Operations and maintenance	2,436,826	-	386,122	2,822,948
Pupil transportation	1,064,431	-	239,440	1,303,871
Central	143,559	-	40	143,599
Operation of non-instructional services:				
Other non-instructional services	-	-	153,023	153,023
Food service operations.	-	-	1,315,632	1,315,632
Extracurricular activities	529,529	-	134,219	663,748
Facilities acquisition and construction.	-	-	249,008	249,008
Debt service:				
Principal retirement	59,647	626,062	894	686,603
Interest and fiscal charges.	4,194	266,836	-	271,030
Total expenditures	<u>31,686,192</u>	<u>905,795</u>	<u>7,227,431</u>	<u>39,819,418</u>
Excess of expenditures over revenues	<u>(2,049,859)</u>	<u>(378,921)</u>	<u>(76,109)</u>	<u>(2,504,889)</u>
Other financing sources (uses):				
Transfers in.	-	178,290	29,060	207,350
Transfers (out)	(207,350)	-	-	(207,350)
Total other financing sources (uses)	<u>(207,350)</u>	<u>178,290</u>	<u>29,060</u>	<u>-</u>
Net change in fund balances	(2,257,209)	(200,631)	(47,049)	(2,504,889)
Fund balances at beginning of year (restated) .	<u>8,412,515</u>	<u>2,591,845</u>	<u>1,789,249</u>	<u>12,793,609</u>
Fund balances at end of year.	<u>\$ 6,155,306</u>	<u>\$ 2,391,214</u>	<u>\$ 1,742,200</u>	<u>\$ 10,288,720</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX 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, 2010

Net change in fund balances - total governmental funds \$ (2,504,889)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Capital asset additions	\$	311,516	
Current year depreciation		(693,197)	
Total			(381,681)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable		1,590	
Accretion of interest on "capital appreciation" bonds		(38,444)	
Total			(36,854)

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

Taxes		(9,893)	
Earnings on investments		1,745	
Intergovernmental		151,852	
Total			143,704

Repayment of bond, loan and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:

Current interest bonds		470,000	
Energy conservation loans		156,956	
Capital leases		59,647	
Total			686,603

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. (19,192)

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 86,137

Change in net assets of governmental activities \$ (2,026,172)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX 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, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 12,297,956	\$ 12,452,055	\$ 12,454,888	\$ 2,833
Tuition.	1,174,073	1,274,660	1,268,386	(6,274)
Transportation fees.	663	1,612	1,613	1
Earnings on investments	139,852	20,306	20,311	5
Rental income	7,894	14,590	14,593	3
Contributions and donations	299	6,943	6,945	2
Other local revenues	158,832	15,935	16,045	110
Payments in lieu of taxes	508,068	538,529	538,545	16
Intergovernmental - state	15,611,376	15,331,901	15,335,389	3,488
Total revenues.	<u>29,899,013</u>	<u>29,656,531</u>	<u>29,656,715</u>	<u>184</u>
Expenditures:				
Current:				
Instruction:				
Regular	18,091,680	16,759,397	16,759,401	(4)
Special.	3,226,778	2,440,228	2,440,228	-
Vocational.	368,930	347,704	347,704	-
Support Services:				
Pupil.	1,599,445	1,388,601	1,388,601	-
Instructional staff	1,623,026	1,590,797	1,489,256	101,541
Board of education	75,354	75,344	75,344	-
Administration.	2,782,278	2,699,997	2,466,451	233,546
Fiscal	2,413,671	2,454,361	2,357,122	97,239
Business	105,166	69,722	69,722	-
Operations and maintenance.	3,178,157	2,867,108	2,516,052	351,056
Pupil transportation	1,390,120	1,135,171	1,134,440	731
Central.	161,285	143,559	143,559	-
Extracurricular activities.	533,428	527,449	527,449	-
Total expenditures	<u>35,549,318</u>	<u>32,499,438</u>	<u>31,715,329</u>	<u>784,109</u>
Excess of expenditures over revenues	<u>(5,650,305)</u>	<u>(2,842,907)</u>	<u>(2,058,614)</u>	<u>784,293</u>
Other financing sources (uses):				
Refund of prior year's expenditures	16,871	10,834	10,836	2
Refund of prior year's receipts.	-	(587)	(587)	-
Transfers (out).	(188,811)	(207,350)	(207,350)	-
Advances in.	-	105,492	105,516	24
Advances (out)	-	(135,700)	(135,700)	-
Sale of capital assets	304	6,274	6,275	1
Total other financing sources (uses)	<u>(171,636)</u>	<u>(221,037)</u>	<u>(221,010)</u>	<u>27</u>
Net change in fund balance	(5,821,941)	(3,063,944)	(2,279,624)	784,320
Fund balance at beginning of year	5,828,050	5,828,050	5,828,050	-
Prior year encumbrances appropriated	756,218	756,218	756,218	-
Fund balance at end of year	<u>\$ 762,327</u>	<u>\$ 3,520,324</u>	<u>\$ 4,304,644</u>	<u>\$ 784,320</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,538,631
Receivables:	
Accounts	102
Accrued interest	<u>145</u>
Total assets.	<u>1,538,878</u>
Liabilities:	
Current liabilities:	
Claims payable	<u>472,392</u>
Total liabilities	<u>472,392</u>
Net assets:	
Unrestricted.	<u>1,066,486</u>
Total net assets	<u>\$ 1,066,486</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 3,538,020
Total operating revenues	<u>3,538,020</u>
Operating expenses:	
Fringe benefits.	288,095
Purchased services.	3,165,440
Materials and supplies	1,668
Total operating expenses.	<u>3,455,203</u>
Operating income	<u>82,817</u>
Nonoperating revenues:	
Interest revenue	3,320
Total nonoperating revenues.	<u>3,320</u>
Change in net assets.	86,137
Net assets at beginning of year	<u>980,349</u>
Net assets at end of year.	<u>\$ 1,066,486</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 3,537,918
Cash payments for employee benefits	(288,095)
Cash payments for purchased services	(3,156,864)
Cash payments for materials and supplies	(1,668)
	91,291
Net cash provided by operating activities.	
Cash flows from investing activities:	
Interest received	3,175
	3,175
Net cash provided by investing activities	
Net increase in cash and cash cash equivalents	94,466
Cash and cash equivalents at beginning of year . . .	1,444,165
Cash and cash equivalents at end of year	\$ 1,538,631
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 82,817
Changes in assets and liabilities:	
(Increase) in accounts receivable.	(102)
Increase in claims payable	8,576
	91,291
Net cash provided by operating activities.	\$ 91,291

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,785	\$ 50,971
Total assets.	2,785	\$ 50,971
Liabilities:		
Accounts payable.	-	\$ 2,180
Intergovernmental payable	-	3
Due to students.	-	48,788
Total liabilities	-	\$ 50,971
Net assets:		
Held in trust for scholarships	2,785	
Total net assets	\$ 2,785	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2
Total additions	2
Deductions:	
Scholarships awarded	38
Total deductions	38
Change in net assets	(36)
Net assets at beginning of year	2,821
Net assets at end of year	\$ 2,785

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in the 1870's through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike and Pleasant Townships. The District is the 97th largest in the State of Ohio (among 905 school districts) in terms of enrollment. It is staffed by 176 non-certified employees and 298 certified full-time teaching personnel who provide services to 4,044 students and other community members.

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) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does 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 and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

Parochial Schools

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

JOINTLY GOVERNED ORGANIZATIONS

Licking Area Computer Association

The Licking Area Computer Association (LACA) is one of 23 Information Technology Centers in the state of Ohio that make up the Ohio Education Computer Network (OECN). LACA was founded in 1982, and is a non-profit organization, owned and governed by the schools it serves. LACA provides a variety of computer services to its member K-12 districts, including accounting, payroll, student grading, student scheduling, electronic grade books, professional development, Internet, Local Area Network support, library automation, and EMIS reporting to the Ohio Department of Education. The District paid LACA \$151,100 for services in fiscal year 2010. Financial information can be obtained from Sandy Mercer, who serves as Executive Director, at 195 Union Street, Suite C-2, Newark, Ohio 43055.

Knox County Career Center

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

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

Bond retirement fund - This fund receives property tax, intergovernmental and transfers-in from the general fund to retire outstanding principal and interest obligations.

The other governmental funds of the District are used to account for (a) food service operations; (b) grants and other resources whose use is restricted to a particular purpose; and (c) financial resources to be used for the acquisition, construction, or improvement of capital facilities.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's only internal service fund is used to account for self-insurance programs.

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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 the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes fringe benefits, claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private purpose trust fund is accounted for using a flow of economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange 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, interest, tuition, grants, and student fees.

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, 2010, but which were levied to finance fiscal year 2011 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, 2010 are recorded as deferred revenue on the governmental 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 received 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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 cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Knox County Budget Commission for rate determination.

Estimated Resources:

By March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 2010, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2010. 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, 2010.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$19,080, which includes \$7,761 assigned from other District funds.

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

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

G. Inventory

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 which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000 for general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 30 years
Buildings and building improvements	15 - 30 years
Furniture and fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	5 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivable/payable”. On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds.” 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.

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 earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net assets date 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, certified employees age forty or greater with at least fifteen years of service, classified/administrative employees age fifty or greater with at least ten years of service, classified/administrative employees age forty-five or greater with at least fifteen years of service and classified/administrative employees of any age with at least twenty 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, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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 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, loans and capital leases are recognized on 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, materials and supplies inventory, prepayments, tax revenue unavailable for appropriation, loans to other funds, textbooks/instructional supplies and debt service. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service, special trust, uniform school supplies and rotary services. The amount also includes amounts restricted by State statute for textbooks/instructional supplies.

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

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

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for textbooks/instructional supplies. See Note 18 for details.

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.

Interfund activity between governmental funds is eliminated in the statement of activities.

R. 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 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Prior Period Adjustment

A prior period adjustment is required to report the payments in lieu of taxes receivable at June 30, 2009, in accordance with Auditor of State Bulletin 2010-003.

The prior period adjustment had the following effect on fund balances as previously reported:

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Fund balance at June 30, 2009	\$ 8,457,371	\$ 2,591,845	\$ 1,789,249	\$ 12,838,465
Adjustment for payments in lieu of taxes receivable	(44,856)	-	-	(44,856)
Restated fund balance at July 1, 2009	<u>\$ 8,412,515</u>	<u>\$ 2,591,845</u>	<u>\$ 1,789,249</u>	<u>\$ 12,793,609</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The prior period adjustment had the following effect on net assets as previously reported:

	Governmental Activities
Net assets at June 30, 2009	\$ 19,437,110
Adjustment for payments in lieu of taxes receivable	(1,221,127)
Restated net assets at July 1, 2009	\$ 18,215,983

C. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Management information systems	\$ 45
Public school preschool	33
Title VI-B	210,240
Education stabilization	2,296
Title I	100,973
Drug free school	1,270
IDEA preschool	2,903
Improving teacher quality	8,142
Miscellaneous federal grants	5,272

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 in the Title I and miscellaneous federal grants funds resulted from both the reporting of short-term interfund loans as a fund liability rather than as an other financing source and adjustments for accrued liabilities.

The deficit fund balances in all other funds resulted 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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;
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 (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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$5,069,284. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2010, \$886,047 of the District’s bank balance of \$5,136,047 was exposed to custodial risk as discussed below, while \$4,250,000 was covered by the FDIC.

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

B. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 5,725,948	\$ 5,725,948
Total	<u>\$ 5,725,948</u>	<u>\$ 5,725,948</u>

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that addresses credit risk.

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 investment or collateral securities that are in the possession of an outside party. The District’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,725,948	100.00
Total	<u>\$ 5,725,948</u>	<u>100.00</u>

C. 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, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,069,284
Investments	<u>5,725,948</u>
Total	<u>\$ 10,795,232</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 10,741,476
Private-purpose trust fund	2,785
Agency fund	<u>50,971</u>
Total	<u>\$ 10,795,232</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2010, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 35,700</u>

The interfund loans were necessitated to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances are reported on the statement of net assets.

- B. Loans to/from other funds consisted of the following at June 30, 2010, as reported on the fund statement:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 17,178</u>

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 were interfund loans which were not repaid in the current fiscal year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Loans to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2010 are reported on the statement of net assets.

- C. Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from the general fund to:	
Bond retirement	\$ 178,290
Nonmajor governmental fund	<u>29,060</u>
Total	<u>\$ 207,350</u>

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

Interfund transfers between governmental funds are eliminated on the governmental-wide financial statements.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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.

The District receives property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$5,030,580 in the general fund, \$146,302 in the bond retirement fund and \$328,164 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$5,062,004 in the general fund, \$305,511 in the bond retirement fund and \$328,738 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 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 the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 517,928,960	96.46	\$ 523,929,430	96.25
Public utility personal	<u>19,012,910</u>	<u>3.54</u>	<u>20,439,570</u>	<u>3.75</u>
Total	<u>\$ 536,941,870</u>	<u>100.00</u>	<u>\$ 544,369,000</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$33.93		\$33.10	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, accrued interest and payments in lieu of taxes. 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 in the statement of net assets follows:

Governmental activities:

Taxes	\$ 13,505,342
Accounts	3,586
Intergovernmental	181,452
Accrued interest	2,831
Payments in lieu of taxes	<u>357,261</u>
Total	<u>\$ 14,050,472</u>

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

NOTE 8 - PAYMENTS IN LIEU OF TAXES

The District has entered into various tax increment financing agreements with local companies for the purpose of various improvements and developments. To encourage these improvements, the companies were granted an exemption from paying property taxes on the improvements and developments; however, payments in lieu of taxes are made to the District in an amount equal to the property taxes that otherwise would have been due in the current year. These payments are being used to finance the District's operations and will continue through fiscal year 2025. The District received \$540,091 in payments in lieu of taxes during fiscal year 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 230,664	\$ -	\$ -	\$ 230,664
Total capital assets, not being depreciated	<u>230,664</u>	<u>-</u>	<u>-</u>	<u>230,664</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	348,907	11,317	-	360,224
Buildings and improvements	20,846,610	50,777	-	20,897,387
Furniture, fixtures and equipment	1,988,853	68,068	-	2,056,921
Vehicles	<u>1,675,327</u>	<u>181,354</u>	<u>(142,006)</u>	<u>1,714,675</u>
Total capital assets, being depreciated	<u>24,859,697</u>	<u>311,516</u>	<u>(142,006)</u>	<u>25,029,207</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(327,045)	(3,208)	-	(330,253)
Buildings and improvements	(9,262,203)	(463,528)	-	(9,725,731)
Furniture, fixtures and equipment	(1,163,225)	(111,266)	-	(1,274,491)
Vehicles	<u>(792,724)</u>	<u>(115,195)</u>	<u>142,006</u>	<u>(765,913)</u>
Total accumulated depreciation	<u>(11,545,197)</u>	<u>(693,197)</u>	<u>142,006</u>	<u>(12,096,388)</u>
Governmental activities capital assets, net	<u>\$ 13,545,164</u>	<u>\$ (381,681)</u>	<u>\$ -</u>	<u>\$ 13,163,483</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 99,806
Special	59,324
Vocational	63,975
<u>Support services:</u>	
Instructional staff	65,483
Administration	64,145
Fiscal	59,022
Operations and maintenance	98,381
Pupil transportation	98,816
Food service operations	14,943
Extracurricular	<u>69,302</u>
Total depreciation expense	<u>\$ 693,197</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2010, the following changes occurred in governmental activities long term obligations:

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
Refunding bonds - Series 2005					
Current interest bonds	\$ 6,425,000	\$ -	\$ (470,000)	\$ 5,955,000	\$ 485,000
Capital appreciation bonds	255,000	-	-	255,000	-
Accreted interest	129,074	38,444	-	167,518	-
Energy conservation loan - 2000	83,276	-	(83,276)	-	-
Energy conservation loan - 2008	695,305	-	(73,680)	621,625	75,720
Total long-term bonds and loans	<u>7,587,655</u>	<u>38,444</u>	<u>(626,956)</u>	<u>6,999,143</u>	<u>560,720</u>
Capital leases	95,010	-	(59,647)	35,363	8,775
Compensated absences	1,601,160	433,512	(360,153)	1,674,519	245,749
Total long-term obligations	<u>\$ 9,283,825</u>	<u>\$ 471,956</u>	<u>\$ (1,046,756)</u>	<u>\$ 8,709,025</u>	<u>\$ 815,244</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employees' salaries are paid, which for the District is primarily the general fund.

Capital Lease Obligations: The capital lease obligations will be paid from the general fund. See Note 11 for details.

General Obligation Bonds Payable - Series 2005: In February 2005, the District issued \$8,315,000 in general obligation bonds for refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The bonds were issued for a fourteen-year period with final maturity at December 1, 2019, with an interest rate of 2.5% to 9.7%. The refunding issue is comprised of both current interest bonds, par value \$8,060,000, and capital appreciation bonds par value \$255,000. The interest rates on the current interest bonds range from 2.50% - 5.00%. The capital appreciation bonds mature on December 1, 2014 (approximate initial offering yield to maturity of 3.80%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2014 is \$590,000. Total accreted interest of \$167,518 has been included on the statement of net assets at June 30, 2010.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2019. Payments of principal and interest are recorded as expenditures of the bond retirement fund.

Energy Conservation Loan - 2000: In December 2000, the District issued \$629,200 general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2010, with an interest rate of 5.75%. Payments of principal and interest are recorded as expenditures of the bond retirement fund. The loan was retired during fiscal year 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Loan - 2008: In February 2008, the District issued \$767,000 general obligation notes for the purpose of providing energy conservation measures for the District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten-year period with final maturity during fiscal year 2018, with an interest rate of 2.75%. Payments of principal and interest are recorded as expenditures of the bond retirement fund and the building fund (a nonmajor governmental fund).

B. Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Year Ending June 30,	Current Interest			Capital Appreciation		
	Refunding Bonds - Series 2005			Refunding Bonds - Series 2005		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 485,000	\$ 228,445	\$ 713,445	\$ -	\$ -	\$ -
2012	510,000	211,095	721,095	-	-	-
2013	570,000	194,610	764,610	-	-	-
2014	-	185,775	185,775	255,000	335,000	590,000
2015	595,000	175,362	770,362	-	-	-
2016 - 2020	<u>3,795,000</u>	<u>461,950</u>	<u>4,256,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,955,000</u>	<u>\$ 1,457,237</u>	<u>\$ 7,412,237</u>	<u>\$ 255,000</u>	<u>\$ 335,000</u>	<u>\$ 590,000</u>

Fiscal Year Year Ending June 30,	Energy Conservation Loan		
	Principal	Interest	Total
2011	\$ 75,720	\$ 16,579	\$ 92,299
2012	77,779	14,521	92,300
2013	79,971	12,329	92,300
2014	82,185	10,115	92,300
2015	84,460	7,840	92,300
2016 - 2018	<u>221,510</u>	<u>9,239</u>	<u>230,749</u>
Total	<u>\$ 621,625</u>	<u>\$ 70,623</u>	<u>\$ 692,248</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are a voted debt margin of \$45,174,424 (including available funds of \$2,391,214) and an unvoted debt margin of \$544,369.

NOTE 11 - CAPITAL LEASES

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

Capital assets consisting of equipment have been capitalized in the amount of \$501,385. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$59,647 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, 2010.

Fiscal Year Ending June 30,	Amount
2011	\$ 11,286
2012	11,286
2013	11,286
2014	6,991
Total minimum lease payments	40,849
Less: amount representing interest	(5,486)
Total	\$ 35,363

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and contents-replacement cost	\$ 1,000	\$ 76,185,783
Inland marine coverage	500	942,750
Automobile liability	500	1,000,000
General liability		
Per occurrence		1,000,000
General aggregate		2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2009.

B. Health Care Self-Insurance Program

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of \$472,392 reported in the internal service fund at June 30, 2010 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Change in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2010	\$ 463,816	\$ 3,165,440	\$ (3,156,864)	\$ 472,392
2009	471,777	3,387,991	(3,395,952)	463,816

C. Workers' Compensation Group Rating Plan

For fiscal year 2010, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (See Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Plan.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the 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, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 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, 2010, 2009 and 2008 were \$530,128, \$361,877 and \$353,696, respectively; 50.00 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 13 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2010, 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.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$2,292,593, \$2,284,894 and \$2,304,974, respectively; 84.45 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$87,067 made by the District and \$62,191 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$78,841, \$223,276 and \$218,403, respectively; 50.00 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$31,526, \$29,858 and \$25,485, respectively; 50.00 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org 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 2010, 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, 2010, 2009, and 2008 were \$176,353, \$175,761 and \$177,306, respectively; 84.45 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 15 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for certificated personnel and 220 days for classified personnel and administrators. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days for certificated employees, 55 days for classified employees and 60 days for all school administrators and other administrators.

B. Life Insurance

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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	\$ (2,279,624)
Net adjustment for revenue accruals	(20,382)
Net adjustment for expenditure accruals	(389,878)
Net adjustment for other financing sources and uses	13,660
Adjustment for encumbrances	419,015
GAAP basis	\$ (2,257,209)

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 a party to other legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 18 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional supplies and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. These amounts must be carried forward to be used for the same purposes in future years. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	<u>Textbooks/ Instructional Supplies</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2009	\$ 317,081	\$ (1,396,200)
Current year set-aside requirement	633,843	633,843
Current year offset	-	(810,074)
Qualifying disbursements	<u>(338,312)</u>	<u>(45,082)</u>
Total	<u>\$ 612,612</u>	<u>\$ (1,617,513)</u>
Balance carried forward to fiscal year 2011	<u>\$ 612,612</u>	<u>\$ (767,000)</u>

The District issued \$767,000 in energy conservation loans during fiscal year 2008. These proceeds may be used to reduce the capital acquisition reserve for future years until the loan is retired by the District. The negative amount is therefore presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2010 follows:

Amount restricted for textbooks/instructional supplies	<u>\$ 612,612</u>
Total restricted assets	<u>\$ 612,612</u>

SUPPLEMENTARY DATA

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Nutrition Grant Cluster:				
(D) (E) School Breakfast Program	10.553	2010	\$ 127,776	\$ 127,776
(D) (E) National School Lunch Program	10.555	2010	571,281	571,281
(D) (C) National School Lunch Program - Food Donation	10.555	2010	68,974	68,974
Total National School Lunch Program			<u>640,255</u>	<u>640,255</u>
(D) (E) Special Milk Program for Children	10.556	2009	4,183	4,183
(D) (E) Summer Food Service Program for Children	10.559	2010	34,710	34,710
Total U.S. Department of Agriculture and Nutrition Grant Cluster			<u>806,924</u>	<u>806,924</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grant Cluster:				
(G)(I) Title I Grants to Local Educational Agencies	84.010	2009	91,737	95,746
(G)(I) Title I Grants to Local Educational Agencies	84.010	2010	739,172	695,465
Total Title I Grants to Local Educational Agencies			<u>830,909</u>	<u>791,211</u>
(G) ARRA - Title I Grants to Local Educational Agencies - Recovery Act	84.389	2010	265,212	217,550
Total Title I Grant Cluster			<u>1,096,121</u>	<u>1,008,761</u>
Special Education Grant Cluster:				
(F) Special Education_Grants to States	84.027	2009	36,369	81,142
(F) Special Education_Grants to States	84.027	2010	957,183	895,967
Total Special Education_Grants to States			<u>993,552</u>	<u>977,109</u>
(F) ARRA - Special Education_Grants to States - Recovery Act	84.391	2010	875,042	712,195
(F)(I) Special Education_Preschool Grants	84.173	2009	(215)	-
(F)(I) Special Education_Preschool Grants	84.173	2010	19,574	18,375
Total Special Education_Preschool Grants			<u>19,359</u>	<u>18,375</u>
(F) ARRA - Special Education_Preschool Grants - Recovery Act	84.392	2010	20,745	16,915
Total Special Education Grant Cluster			<u>1,908,913</u>	<u>1,724,594</u>
(I) Safe and Drug-Free Schools and Communities_State Grants	84.186	2009	(178)	-
(I) Safe and Drug-Free Schools and Communities_State Grants	84.186	2010	11,014	10,327
Total Safe and Drug-Free Schools and Communities_State Grants			<u>10,836</u>	<u>10,327</u>
(H) Fund for the Improvement of Education	84.215	N/A	375,727	375,727
State Grants for Inovative Programs	84.298	2009	-	1,584
Javits Gifted and Talented Students Education Grant Program	84.206	2010	500	-
Education Technology State Grants	84.318	2009	-	1,006
Education Technology State Grants	84.318	2010	9,255	6,797
Total Education Technology State Grants			<u>9,255</u>	<u>7,803</u>
(I) Improving Teacher Quality State Grants	84.367	2009	(3,194)	6,063
(I) Improving Teacher Quality State Grants	84.367	2010	241,427	208,401
Total Improving Teach Quality State Grants			<u>238,233</u>	<u>214,464</u>
ARRA - State Financial Stabilization Funds (SFSF) - Education State Grants, Recovery Act	84.394	2010	815,924	815,924
Total U.S. Department of Education			<u>4,455,687</u>	<u>4,159,184</u>
Total Federal Financial Assistance			<u>\$ 5,262,611</u>	<u>\$ 4,966,108</u>

-Continued

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2010.
- (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) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Special Education Grant Cluster" in determining major programs.
- (G) Included as part of "Title I Grant Cluster" in determining major programs
- (H) This grant was direct from the U.S. Department of Education.
- (I) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2010, the ODE authorized the following transfers:

Program Title	CFDA Grant	Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2009	\$ 4,902	
Title I Grants to Local Educational Agencies	84.010	2010		\$ 4,902
Special Education_Grants to States	84.173	2009	215	
Special Education_Grants to States	84.173	2010		215
Safe and Drug Free Schools and Communitees	84.186	2009	178	
Safe and Drug Free Schools and Communitees	84.186	2010		178
Improving Teacher Quality State Grants	84.367	2009	3,194	
Improving Teacher Quality State Grants	84.367	2010		3,194
Totals			<u>\$ 8,489</u>	<u>\$ 8,489</u>



Julian & Grube, Inc.
Serving Ohio Local Governments

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

**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 Accounting Standards***

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

To the Members of the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2010, which collectively comprise Mount Vernon City School District's basic financial statements and have issued our report thereon dated November 19, 2010. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mount Vernon City School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Mount Vernon City School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Mount Vernon City School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material financial statement misstatement of the Mount Vernon City School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. We consider findings 2010-MVCSD-001 and 2010-MVCSD-002 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Education
Mount Vernon City School District

Compliance and Other Matters

As part of reasonably assuring whether the Mount Vernon City School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Mount Vernon City School District's management in a separate letter dated November 19, 2010.

The Mount Vernon City 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 the Mount Vernon City School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management and Board of Education of the Mount Vernon City School District, federal awarding agencies and pass-through entities, and others within the Mount Vernon City School District. We intend it for no one other than these specified parties.



Julian & Grube, Inc.
November 19, 2010



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Board of Education
Mount Vernon City School District
300 Newark Road
Mount Vernon, Ohio 44641

To the Members of the Board of Education:

Compliance

We have audited the compliance of the Mount Vernon City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the Mount Vernon City School District's major federal programs. The Mount Vernon City School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Mount Vernon City 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Mount Vernon City School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mount Vernon City School District's compliance with those requirements.

In our opinion, the Mount Vernon City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

The Mount Vernon City School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mount Vernon City School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of Mount Vernon City School District's internal control over compliance.

Board of Education
Mount Vernon City School District

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, 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.

We intend this report solely for the information and use of the management and Board of Education of the Mount Vernon City School District, federal awarding agencies and pass-through entities, and others within the Mount Vernon City School District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
November 19, 2010

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS		
<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>	No
<i>(d)(1)(ii)</i>	<i>Were there any 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 Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act - CFDA #84.394, Title I Grant Cluster: Title I Grants to Local Educational Agencies – CFDA #84.010, ARRA - Title I Grants to Local Educational Agencies, Recovery Act - CFDA #84.389; Fund for the Improvement of Education - CFDA #84.215; Special Education Grant Cluster: Special Education Grants to States - CFDA #84.027; ARRA - Special Education Grants to States, Recovery Act - CFDA #84.391, Special Education_Preschool Grants - CFDA #84.173 and ARRA - Special Education_Preschool Grants, Recovery Act - CFDA #84.392
<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

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2010-MVCSD-001

Significant Deficiency - Capital Assets

This District was unable to provide a comprehensive detailed listing of capital assets in an easily auditable format including, but not limited to the following: description of the asset, location of the asset, asset tag number, cost, voucher number and vendor name, date placed in service, estimated useful life, depreciation method, depreciation expense and accumulated depreciation for the year by asset and the date asset retired and selling price if applicable.

The District obtained a valuation of capital assets at June 30, 2003. Since June 30, 2003, additions and disposals are recorded from detailed disbursements ledgers.

While, alternative and various methods of testing were able to be performed for purposes of the audit, the District lacks internal controls over their reporting of capital assets.

The District has undergone significant change in recent years regarding facilities. Complete information such as noted above on all capital assets will help provide controls for the safeguarding of these assets. Better assessment and evaluation could also be made regarding the reliability of certain capital assets and the District's future needs for improvements and replacements.

We recommend the District consider consulting with an appraisal company or take a physical inventory of District assets with their own sources. We further suggest the District consider a "tagging" method of asset inventory for all inventory and prepare a detailed schedule that supports the cost, book value, and depreciation schedule for each item. This schedule should then be maintained on a current basis. We further recommend the District re-evaluate its policies, procedures and controls regarding additions and disposals of capital assets.

Client Response: The District has selected a company to perform an appraisal of the District's asset inventory.

Finding Number	2010-MVCSD-002
----------------	----------------

Significant Deficiency - Financial Statement Presentation

Accurate financial reporting is an important part of the District's overall purpose. Financial reporting requires internal controls in place to help ensure accuracy of reporting.

We identified misstatements in the financial statements for the fiscal year under audit that were not initially identified by the District's internal controls. The audit adjustments were made to the District's financial statements. A description of the adjustments follows:

General Fund

Decrease taxes receivable and unearned revenue in the amount of \$1,795,670 to remove homestead and rollback revenues improperly included as taxes receivable.

Bond Retirement Fund

Decrease taxes receivable and unearned revenue in the amount of \$81,112 to remove homestead and rollback revenues improperly included as taxes receivable.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2010-MVCSD-002 - (Continued)

Aggregate Remaining Funds - Capital Project Fund

Decrease taxes receivable and unearned revenue in the amount of \$113,492 to remove homestead and rollback revenues improperly included as taxes receivable.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. Lack of a properly presented financial statement review process could inhibit its financial accountability to both the citizens and the Board, which they may use to facilitate District decisions.

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: The District will adopt controls to promote the presentation of materially correct financial statements in the future.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2009-MVCSD-001	<u>Significant Deficiency - Capital Assets</u> - The District was unable to provide a comprehensive detailed listing of capital assets in an easily auditable format.	No	Repeated as Finding 2010-MVCSD-001
2009-MVCSD-002	Ohio Revised Code Section 5705.36 requires subdivisions to certify to the County Auditor the amount available from all sources for expenditures from each fund along with any balances which existed at the end of the preceding year on or about the first day of each fiscal year.	Yes	N/A
2009-MVCSD-003	Ohio Revised Code Section 5705.36(A)(4) states that upon a determination by the Fiscal Officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an office certificate.	Yes	N/A



Dave Yost • Auditor of State

MOUNT VERNON CITY SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 27, 2011**