

***MECHANICSBURG EXEMPTED VILLAGE SCHOOL
DISTRICT***

CHAMPAIGN COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2011

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mechanicsburg Exempted Village School District, Champaign County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 2, 2012

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**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
 CHAMPAIGN COUNTY
 AUDIT REPORT
 For the Year Ended June 30, 2011**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To 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 Mechanicsburg Exempted Village School District, Champaign County, Ohio, (the District), as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 basic 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 Mechanicsburg Exempted Village School District, Champaign County, Ohio, as of June 30, 2011, and the respective changes in its financial position and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District implemented Governmental Accounting Standard Board Statement No.54, "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying federal awards expenditures schedule is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The federal awards expenditures schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Charles E. Harris

Charles E. Harris & Associates, Inc.
March 26, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The management's discussion and analysis of the Mechanicsburg Exempted Village School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities decreased \$1,132,223 which represents a 5.89% decrease from 2010.
- General revenues accounted for \$7,813,685 in revenue or 72.53% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,959,367 or 27.47% of total revenues of \$10,773,052.
- The District had \$11,905,275 in expenses related to governmental activities; \$2,959,367 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,813,685 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$9,179,266 in revenues and other financing sources and \$9,409,080 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased \$229,814 from a restated balance of \$1,191,399 to \$961,585.
- The District's bond retirement fund had \$510,591 in revenues and \$564,451 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$53,860 from \$251,226 to \$197,366.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the bond retirement fund.

Governmental Funds

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-51 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 5,723,276	\$ 5,373,403
Capital assets, net	<u>24,047,663</u>	<u>24,905,514</u>
Total assets	<u>29,770,939</u>	<u>30,278,917</u>
<u>Liabilities</u>		
Current liabilities	3,535,559	3,424,854
Long-term liabilities	<u>8,135,623</u>	<u>7,622,083</u>
Total liabilities	<u>11,671,182</u>	<u>11,046,937</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	17,368,616	17,966,130
Restricted	1,025,614	814,767
Unrestricted (deficit)	<u>(294,473)</u>	<u>451,083</u>
Total net assets	<u>\$ 18,099,757</u>	<u>\$ 19,231,980</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$18,099,757.

At year-end, capital assets represented 80.78% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$17,368,616. 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.

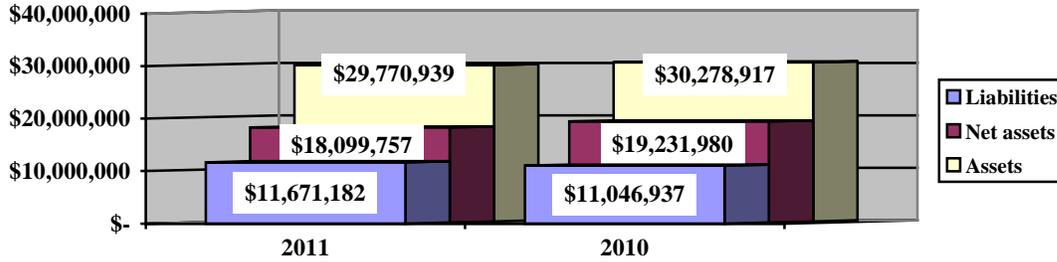
A portion of the District's net assets, \$1,025,614, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$294,473.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The graph below presents the District's assets, liabilities and net assets for fiscal years 2011 and 2010.

Governmental Activities



The table below shows the change in net assets for fiscal years 2011 and 2010. The 2010 balances of operating grants and contributions and general revenues - grants and entitlements have been restated to conform to 2011 presentation of Pathway to Student Success (PASS) funding from the State of Ohio which is reported as an operating grant rather than as general revenue.

Change in Net Assets

	Governmental Activities 2011	Restated Governmental Activities 2010
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,152,367	\$ 1,169,289
Operating grants and contributions	1,807,000	1,551,356
General revenues:		
Property taxes	2,358,490	2,428,189
School district income taxes	1,279,935	1,259,671
Grants and entitlements	4,048,646	4,069,422
Investment earnings	7,257	10,762
Other	119,357	61,648
Total revenues	<u>10,773,052</u>	<u>10,550,337</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Change in Net Assets - (Continued)

	Governmental Activities 2011	Governmental Activities 2010
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,259,695	\$ 4,961,802
Special	1,161,999	1,448,564
Vocational	130,535	163,990
Support services:		
Pupil	358,232	368,455
Instructional staff	401,049	463,296
Board of education	57,827	66,657
Administration	976,387	914,976
Fiscal	314,551	315,400
Operations and maintenance	1,302,793	1,226,150
Pupil transportation	700,730	704,938
Central	181,888	170,101
Food service operations	243,775	284,086
Other non-instructional services	2,826	6,427
Extracurricular activities	468,938	440,225
Interest and fiscal charges	<u>344,050</u>	<u>345,825</u>
Total expenses	<u>11,905,275</u>	<u>11,880,892</u>
Change in net assets	(1,132,223)	(1,330,555)
Net assets at beginning of year	<u>19,231,980</u>	<u>20,562,535</u>
Net assets at end of year	<u>\$ 18,099,757</u>	<u>\$ 19,231,980</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,132,223. Total governmental expenses of \$11,905,275 were offset by program revenues of \$2,959,367 and general revenues of \$7,813,685. Program revenues supported 24.86% of the total governmental expenses.

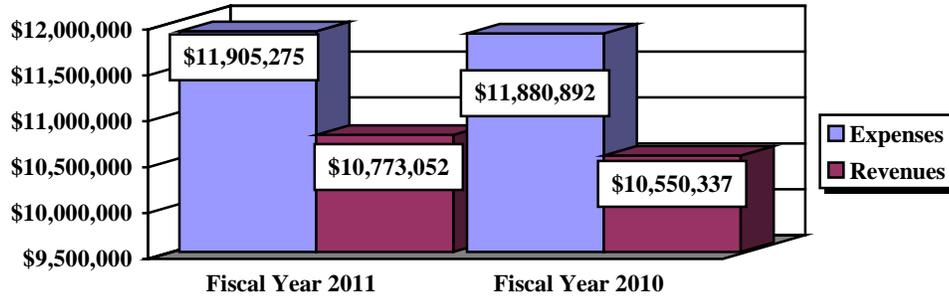
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and unrestricted grants and entitlements. These revenue sources represent 71.35% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,552,229 or 55.04% of total governmental expenses for fiscal year 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2011 and 2010.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The 2010 net cost of services for special instruction has been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as an operating grant offsetting special instruction.

Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Restated Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 5,259,695	\$ 3,645,734	\$ 4,961,802	\$ 3,815,703
Special	1,161,999	537,254	1,448,564	685,043
Vocational	130,535	50,461	163,990	101,288
Support services:				
Pupil	358,232	328,436	368,455	340,880
Instructional staff	401,049	208,277	463,296	274,410
Board of education	57,827	57,827	66,657	66,657
Administration	976,387	966,415	914,976	909,216
Fiscal	314,551	314,551	315,400	315,400
Operations and maintenance	1,302,793	1,298,204	1,226,150	1,216,116
Pupil transportation	700,730	642,144	704,938	581,623
Central	181,888	147,642	170,101	129,062
Food service operations	243,775	(3,613)	284,086	6,703
Other non-instructional services	2,826	2,591	6,427	(3,549)
Extracurricular activities	468,938	405,935	440,225	375,870
Interest and fiscal charges	344,050	344,050	345,825	345,825
Total expenses	<u>\$ 11,905,275</u>	<u>\$ 8,945,908</u>	<u>\$ 11,880,892</u>	<u>\$ 9,160,247</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The dependence upon tax and other general revenues for governmental activities is apparent; 64.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.14%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2011 and 2010. The 2010 program revenues and general revenues have been restated to conform to 2011 presentation of PASS funding from the State of Ohio which is reported as program revenue rather than as general revenue.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,646,896, which is less than last year's total of \$1,720,418. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated fund balances at June 30, 2010, as described in Note 3.B.

	Fund Balance <u>June 30, 2011</u>	Restated Fund Balance <u>June 30, 2010</u>	Increase (Decrease)	Percentage Change
General	\$ 961,585	\$ 1,191,399	\$ (229,814)	(19.29) %
Bond retirement	197,366	251,226	(53,860)	(21.44) %
Other governmental	<u>487,945</u>	<u>277,793</u>	<u>210,152</u>	75.65 %
Total	<u>\$ 1,646,896</u>	<u>\$ 1,720,418</u>	<u>\$ (73,522)</u>	(4.27) %

General Fund

The District's general fund balance decreased \$229,814 which is primarily the result of increased expenditures. Expenditures exceeded revenues for fiscal year 2011 by \$938,242.

For fiscal year 2011, there were no significant changes in the general fund's revenues and expenditures as compared to the prior year. However, a slight decrease in revenues coupled with increasing expenditures led to the decrease in fund balance. Most of the increase in expenditures can be attributed to slight increases in wages and benefits costs, particularly for the District's non-certificated and support staff. The debt service expenditures in fiscal year 2011 represent the issuance costs associated with the District's bond issue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The table that follows assists in illustrating the financial activities of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 2,945,023	\$ 2,974,840	\$ (29,817)	(1.00) %
Tuition	618,505	614,609	3,896	0.63 %
Earnings on investments	7,257	9,857	(2,600)	(26.38) %
Intergovernmental	4,458,858	4,494,823	(35,965)	(0.80) %
Other revenues	<u>426,195</u>	<u>386,998</u>	<u>39,197</u>	10.13 %
Total	<u>\$ 8,455,838</u>	<u>\$ 8,481,127</u>	<u>\$ (25,289)</u>	(0.30) %
<u>Expenditures</u>				
Instruction	\$ 5,297,137	\$ 5,242,251	\$ 54,886	1.05 %
Support services	3,850,952	3,782,975	67,977	1.80 %
Non-instructional services	2,326	5,371	(3,045)	(56.69) %
Extracurricular activities	229,365	197,340	32,025	16.23 %
Debt service	<u>14,300</u>	<u>-</u>	<u>14,300</u>	100.00 %
Total	<u>\$ 9,394,080</u>	<u>\$ 9,227,937</u>	<u>\$ 166,143</u>	1.80 %

Bond Retirement Fund

The District's bond retirement fund had \$510,591 in revenues and \$564,451 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance decreased \$53,860 from \$251,226 to \$197,366.

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 2011, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,905,263 and final budgeted revenues and other financing sources were \$9,996,393. Most of the increase from the original to final budget is a result of the District's bond issue which was budgeted later in the fiscal year. Actual revenues and other financing sources for fiscal year 2011 were \$8,954,899. This represents a \$1,041,494 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,200,322 were increased to \$9,497,935 in the final appropriations. The actual budget basis expenditures for fiscal year 2011 totaled \$9,190,153 which was \$307,782 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$24,047,663 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The following table shows fiscal year 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 250,000	\$ 250,000
Land improvements	3,550,242	3,768,331
Building and improvements	19,510,597	20,061,845
Furniture and equipment	522,615	562,619
Vehicles	214,209	262,719
Total	\$ 24,047,663	\$ 24,905,514

The overall decrease in capital assets of \$857,851 is due to depreciation expense of \$872,175 exceeding capital outlays of \$14,324.

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

Debt Administration

At June 30, 2011, the District had \$7,483,383 in general obligation bonds outstanding. Of this total, \$259,205 is due within one year and \$7,224,178 is due in more than one year. The District also had \$37,461 in capital lease obligations outstanding; this entire amount is due within one year. The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2011	2010
General obligation bonds	\$ 7,483,383	\$ 6,945,246
Capital lease obligations	37,461	73,258
Total	\$ 7,520,844	\$ 7,018,504

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

Current Financial Related Activities

Overall, the District is financially stable. As the preceding information shows, the District relies heavily upon property taxes, income taxes, and State support. Decreases in property tax revenues began in fiscal year 2007, due to changes enacted in the State's biennial budget bill effective July 1, 2005. Small growth in student population due to new housing will increase State support. An additional five year 1% income tax was passed by the voters in May 2006 and renewed by the voters in 2010. The total income tax being collected during fiscal year 2011 was one and one-half percent.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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

The construction project undertaken through the Ohio School Facilities Commission (OSFC) was complete in June 2006. One new PreK-12 school costing \$24.2 million began construction in late summer 2005.

Since the District relies on the State for approximately 56% of the general operating revenues, one of the largest challenges facing the District is that of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan and granted a motion for reconsideration on November 2, 2001. At this time, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

The general health of the economy has adversely affected the District as fuel prices continue to be unstable, also Ohio ranks fifth in the number of individual house foreclosures and an unemployment rate of over 9.5% which could affect tax receipts and other school revenue.

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

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,146,013
Cash in segregated accounts	150,659
Receivables:	
Taxes.	3,011,969
Accounts	6,839
Intergovernmental	312,955
Accrued interest	287
Prepayments	2,484
Materials and supplies inventory.	2,759
Unamortized bond issuance costs	89,311
Capital assets:	
Land.	250,000
Depreciable capital assets, net.	23,797,663
Capital assets, net	24,047,663
Total assets	29,770,939
Liabilities:	
Accounts payable.	1,170
Contracts payable.	150,659
Accrued wages and benefits	912,955
Pension obligation payable.	233,916
Intergovernmental payable	31,263
Retirement incentive payable.	35,000
Accrued interest payable	25,577
Unearned revenue	2,145,019
Long-term liabilities:	
Due within one year.	380,550
Due in more than one year	7,755,073
Total liabilities	11,671,182
Net assets:	
Invested in capital assets, net	
of related debt.	17,368,616
Restricted for:	
Capital projects	468,979
Debt service.	209,407
Classroom facilities maintenance	83,678
State funded programs.	2,612
Federally funded programs	260,938
Unrestricted (deficit)	(294,473)
Total net assets	\$ 18,099,757

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 5,259,695	\$ 916,030	\$ 697,931	\$ (3,645,734)
Special	1,161,999	9,616	615,129	(537,254)
Vocational	130,535	-	80,074	(50,461)
Support services:				
Pupil.	358,232	-	29,796	(328,436)
Instructional staff	401,049	8,011	184,761	(208,277)
Board of education	57,827	-	-	(57,827)
Administration.	976,387	5,588	4,384	(966,415)
Fiscal.	314,551	-	-	(314,551)
Operations and maintenance	1,302,793	4,589	-	(1,298,204)
Pupil transportation.	700,730	-	58,586	(642,144)
Central	181,888	-	34,246	(147,642)
Operation of non-instructional services:				
Food service operations	243,775	146,849	100,539	3,613
Other non-instructional services	2,826	-	235	(2,591)
Extracurricular activities.	468,938	61,684	1,319	(405,935)
Interest and fiscal charges	344,050	-	-	(344,050)
Totals	\$ 11,905,275	\$ 1,152,367	\$ 1,807,000	(8,945,908)
General revenues:				
Property taxes levied for:				
General purposes				1,701,077
Debt service.				451,018
Special revenue				31,987
Capital projects				174,408
School district income tax				1,279,935
Grants and entitlements not restricted to specific programs.				4,048,646
Investment earnings				7,257
Miscellaneous				119,357
Total general revenues				7,813,685
Change in net assets				(1,132,223)
Net assets at beginning of year				19,231,980
Net assets at end of year.				\$ 18,099,757

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<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	\$ 1,418,961	\$ 150,887	\$ 576,165	\$ 2,146,013
Cash in segregated accounts	-	-	150,659	150,659
Receivables:				
Taxes	2,314,639	478,499	218,831	3,011,969
Accounts	6,839	-	-	6,839
Intergovernmental.	-	-	312,955	312,955
Accrued interest.	287	-	-	287
Interfund	102,140	-	-	102,140
Loans to other funds	37,000	-	-	37,000
Prepayments	2,484	-	-	2,484
Materials and supplies inventory.	-	-	2,759	2,759
Total assets.	<u>\$ 3,882,350</u>	<u>\$ 629,386</u>	<u>\$ 1,261,369</u>	<u>\$ 5,773,105</u>
Liabilities:				
Accounts payable.	\$ 1,170	\$ -	\$ -	\$ 1,170
Contracts payable.	-	-	150,659	150,659
Accrued wages and benefits	893,845	-	19,110	912,955
Pension obligation payable	223,952	-	9,964	233,916
Intergovernmental payable	30,808	-	455	31,263
Compensated absences payable.	32,584	-	-	32,584
Retirement incentive payable.	35,000	-	-	35,000
Interfund payable	-	-	102,140	102,140
Loans from other funds.	-	-	37,000	37,000
Deferred revenue	136,646	36,129	271,728	444,503
Unearned revenue.	1,566,760	395,891	182,368	2,145,019
Total liabilities	<u>2,920,765</u>	<u>432,020</u>	<u>773,424</u>	<u>4,126,209</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory	-	-	2,759	2,759
Prepays	2,484	-	-	2,484
Long-term loans.	37,000	-	-	37,000
Restricted:				
Debt service	-	197,366	-	197,366
Capital improvements	-	-	455,345	455,345
Classroom facilities maintenance.	-	-	81,058	81,058
Targeted academic assistance.	-	-	8,409	8,409
Other purposes.	-	-	2,612	2,612
Committed:				
Other purposes.	-	-	20,854	20,854
Assigned:				
Student instruction	2,676	-	-	2,676
Student and staff support	65,915	-	-	65,915
Subsequent year appropriations.	784,813	-	-	784,813
School supplies	26,709	-	-	26,709
Public school support	27,870	-	-	27,870
Other purposes.	14,118	-	-	14,118
Unassigned (deficit).	-	-	(83,092)	(83,092)
Total fund balances	<u>961,585</u>	<u>197,366</u>	<u>487,945</u>	<u>1,646,896</u>
Total liabilities and fund balances.	<u>\$ 3,882,350</u>	<u>\$ 629,386</u>	<u>\$ 1,261,369</u>	<u>\$ 5,773,105</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	1,646,896
<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.			24,047,663
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	189,029	
Intergovernmental receivable		255,474	
Total		444,503	444,503
Unamortized bond issuance costs are not recognized in the funds.			89,311
Unamortized premiums on bond issuances are not recognized in the funds.			(76,321)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(25,577)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(7,483,383)	
Capital lease obligation payable		(37,461)	
Compensated absences payable		(505,874)	
Total		(8,026,718)	(8,026,718)
Net assets of governmental activities		\$	18,099,757

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes	\$ 2,945,023	\$ 441,981	\$ 202,269	\$ 3,589,273
Tuition	618,505	-	-	618,505
Earnings on investments	7,257	-	-	7,257
Charges for services	-	-	146,849	146,849
Extracurricular	28,852	-	61,684	90,536
Classroom materials and fees	28,998	-	-	28,998
Other local revenues	368,345	-	7,095	375,440
Intergovernmental - state	4,427,470	68,610	44,381	4,540,461
Intergovernmental - federal	31,388	-	1,053,879	1,085,267
Total revenues	<u>8,455,838</u>	<u>510,591</u>	<u>1,516,157</u>	<u>10,482,586</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,128,285	-	502,034	4,630,319
Special	1,044,993	-	152,427	1,197,420
Vocational	123,859	-	25,726	149,585
Support services:				
Pupil	337,348	-	21,211	358,559
Instructional staff	312,625	-	88,565	401,190
Board of education	57,827	-	-	57,827
Administration	928,467	-	6,000	934,467
Fiscal	297,948	8,146	3,714	309,808
Operations and maintenance	1,119,452	-	193,716	1,313,168
Pupil transportation	650,640	-	-	650,640
Central	146,645	-	34,512	181,157
Operation of non-instructional services:				
Food service operations	-	-	211,895	211,895
Other non-instructional services	2,326	-	500	2,826
Extracurricular activities	229,365	-	86,992	316,357
Debt service:				
Principal retirement	-	250,797	-	250,797
Interest and fiscal charges	-	305,508	-	305,508
Bond issuance costs	14,300	-	-	14,300
Total expenditures	<u>9,394,080</u>	<u>564,451</u>	<u>1,327,292</u>	<u>11,285,823</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(938,242)</u>	<u>(53,860)</u>	<u>188,865</u>	<u>(803,237)</u>
Other financing sources (uses):				
Sale of bonds	715,000	-	-	715,000
Proceeds from insurance claim	8,428	-	6,287	14,715
Transfers in	-	-	15,000	15,000
Transfers (out)	(15,000)	-	-	(15,000)
Total other financing sources (uses)	<u>708,428</u>	<u>-</u>	<u>21,287</u>	<u>729,715</u>
Net change in fund balances	(229,814)	(53,860)	210,152	(73,522)
Fund balances at beginning of year (restated).	<u>1,191,399</u>	<u>251,226</u>	<u>277,793</u>	<u>1,720,418</u>
Fund balances at end of year	<u>\$ 961,585</u>	<u>\$ 197,366</u>	<u>\$ 487,945</u>	<u>\$ 1,646,896</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ (73,522)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Additions	\$ 14,324	
Depreciation expense	(872,175)	
Total		(857,851)

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

Taxes	49,152	
Intergovernmental	226,599	
Total		275,751

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

250,797

The issuance of bonds is recorded as and other financing source in the funds; however, in the statement of activities, it is not reported as an other financing source as it increases liabilities on the statement of net assets.

(715,000)

Bond issuance costs related to the issuance of bonds are amortized over the life of the issuance in the statement of activities.

14,300

In the statement of activities, interest is accrued on outstanding bonds and leases, 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:

Increase in accrued interest payable	(523)	
Accreted interest on capital appreciation bonds	(38,137)	
Amortization of bond premium	(9,422)	
Amortization of bond issuance costs	9,540	
Total		(38,542)

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

11,844

Change in net assets of governmental activities \$ (1,132,223)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<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	\$ 3,030,144	\$ 2,967,352	\$ 2,949,925	\$ (17,427)
Tuition	649,480	636,021	618,505	(17,516)
Earnings on investments	11,455	11,218	7,599	(3,619)
Other local revenues	85,184	83,419	68,760	(14,659)
Intergovernmental - state	4,714,371	4,616,679	4,427,470	(189,209)
Intergovernmental - federal	40,846	40,000	31,388	(8,612)
Total revenues.	<u>8,531,480</u>	<u>8,354,689</u>	<u>8,103,647</u>	<u>(251,042)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,681,735	3,919,631	3,743,633	175,998
Special.	1,053,098	1,121,145	1,083,190	37,955
Vocational.	154,571	164,559	125,459	39,100
Support services:				
Pupil.	289,271	307,963	318,653	(10,690)
Instructional staff	367,502	391,249	300,476	90,773
Board of education	68,728	73,169	78,215	(5,046)
Administration.	847,731	916,808	948,950	(32,142)
Fiscal	270,638	288,126	290,621	(2,495)
Operations and maintenance.	953,502	1,015,114	1,149,067	(133,953)
Pupil transportation	654,452	696,740	669,623	27,117
Central.	145,332	154,723	143,773	10,950
Extracurricular activities.	204,879	218,117	220,553	(2,436)
Total expenditures	<u>8,691,439</u>	<u>9,267,344</u>	<u>9,072,213</u>	<u>195,131</u>
Excess of expenditures over revenues	<u>(159,959)</u>	<u>(912,655)</u>	<u>(968,566)</u>	<u>(55,911)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	2,976	2,976	1,424	(1,552)
Sale of bonds	-	715,000	715,000	-
Transfers (out).	(31,363)	(31,363)	(15,000)	16,363
Advances in.	370,407	199,228	126,400	(72,828)
Advances (out)	(477,520)	(199,228)	(102,940)	96,288
Sale of notes	-	715,000	-	(715,000)
Proceeds from insurance claim.	400	9,500	8,428	(1,072)
Total other financing sources (uses)	<u>(135,100)</u>	<u>1,411,113</u>	<u>733,312</u>	<u>(677,801)</u>
Net change in fund balance	(295,059)	498,458	(235,254)	(733,712)
Fund balance at beginning of year	1,397,133	1,397,133	1,397,133	-
Prior year encumbrances appropriated	71,384	71,384	71,384	-
Fund balance at end of year	<u>\$ 1,173,458</u>	<u>\$ 1,966,975</u>	<u>\$ 1,233,263</u>	<u>\$ (733,712)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 57,336	\$ 55,134
Total assets.	57,336	\$ 55,134
Liabilities:		
Due to students.	-	\$ 55,134
Total liabilities	-	\$ 55,134
Net assets:		
Held in trust for scholarships	57,336	
Total net assets	\$ 57,336	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 305
Gifts and contributions.	50,000
Total additions.	50,305
Deductions:	
Scholarships awarded	175
Change in net assets.	50,130
Net assets at beginning of year	7,206
Net assets at end of year	\$ 57,336

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

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

The District currently operates one building that is composed of its elementary, middle school and high school. The District employs 38 non-certified and 68 certified (including administrative) full-time and part-time employees to provide services to approximately 944 students in grades K through 12 and various community groups, which ranks it 495th out of 918 public school districts and community schools in Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989 to its governmental activities 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", and 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Hi-Point Career Center

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

Western Ohio Computer Organization

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

RELATED ORGANIZATION

Mechanicsburg Public Library

The Mechanicsburg Public Library (Library) is an organization related to the District. The School Board members are responsible for appointing the trustees of the Library; however, the School Board cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library determines its own budget. The Library did not receive any funding from the District during fiscal year 2011.

INSURANCE PURCHASING POOL

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

PUBLIC ENTITY RISK POOL

The District is also a participant in an insurance group purchasing pool, discussed in Note 12.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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.

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

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

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 income taxes is recognized in the period in which the income is earned (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, income taxes, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 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, 2011 are recorded as deferred revenue on the fund financial statements.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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 District is required by State statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2011 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

2. By no later than January 20, the board-adopted budget is filed with the Champaign County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to 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 a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of control has been established at the fund level of expenditures, the District has elected to present the budgetary statement for the general fund at the fund and function level of expenditures in the basic financial statements. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2011; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

During fiscal year 2011, investments were limited investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Investment earnings are assigned to the general fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$7,257, which includes \$3,090 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2011, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or more with at least 10 years of service, or any employee with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capitalized leases are recognized as a liability in the fund financial statements when due.

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Q. Unamortized Bond Issuance Costs and Bond Premium

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

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

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

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 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 1,158,615	\$ 251,226	\$ 310,577	\$ 1,720,418
Fund reclassifications:				
Uniform school supplies fund	23,872	-	(23,872)	-
Internal service rotary fund	(18,621)	-	18,621	-
Public school support fund	22,242	-	(22,242)	-
Special enterprise fund	<u>5,291</u>	<u>-</u>	<u>(5,291)</u>	<u>-</u>
Total fund reclassifications	<u>32,784</u>	<u>-</u>	<u>(32,784)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 1,191,399</u>	<u>\$ 251,226</u>	<u>\$ 277,793</u>	<u>\$ 1,720,418</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 29,352
District managed activity	10,316
Vocational education enhancement	2,945
IDEA Part B	17,858
Stimulus Title II D	74
Improving teacher quality	16,958
Miscellaneous federal grants	2,830

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 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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. Cash on Hand

At fiscal year end, the District had \$400 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

B. Cash in Segregated Accounts

At June 30, 2011, the District had \$150,659 in a segregated account for construction liens. This account was covered by the FDIC. This amount is not included in the District’s depository balance below.

C. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$1,678,403. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2011, \$1,091,141 of the District’s bank balance of \$1,904,976 was exposed to custodial risk as discussed below, while \$813,835 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.

D. Investments

As of June 30, 2011, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity <u>6 months or less</u>
STAR Ohio	\$ <u>579,680</u>	\$ <u>579,680</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Credit Risk: 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's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State Statute.

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

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 579,680	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,678,403
Investments	579,680
Cash in segregated accounts	150,659
Cash on hand	<u>400</u>
Total	<u>\$ 2,409,142</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,296,672
Private-purpose trust fund	57,336
Agency funds	<u>55,134</u>
Total	<u>\$ 2,409,142</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	
Nonmajor governmental funds	\$ 15,000

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.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

- B. Interfund balances at June 30, 2011, as reported on the fund financial statements, consist of the following individual interfund receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$102,140

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets.

- C. Interfund balances at June 30, 2011, as reported on the fund financial statements, consist of the following loans to/from other funds.

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$37,000

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. The long-term interfund balances are not expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2011 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 6 - PROPERTY TAXES - (Continued)

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 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, 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.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally 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 were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Champaign and Madison Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$173,693 in the general fund, \$46,479 in the bond retirement fund, \$16,959 in the permanent improvement fund (a nonmajor governmental fund) and \$3,250 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$173,627 in the general fund, \$46,869 in the bond retirement fund, \$17,200 in the permanent improvement fund (a nonmajor governmental fund) and \$3,316 in the classroom facilities maintenance 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 delinquent tangible personal property taxes which are measurable as of June 30, 2011 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 80,703,540	96.09	\$ 86,952,060	99.95
Public utility personal	3,150,210	3.75	43,630	0.05
Tangible personal property	<u>138,140</u>	<u>0.16</u>	<u>1,670</u>	<u>-</u>
Total	<u>\$ 83,991,890</u>	<u>100.00</u>	<u>\$ 86,997,360</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation				
Operations	\$28.50		\$28.50	
Permanent improvement	5.50		5.50	
Bond retirement	6.00		6.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, accounts, intergovernmental grants and entitlements, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 3,011,969
Accounts	6,839
Intergovernmental	312,955
Accrued interest	<u>287</u>
Total	<u>\$ 3,332,050</u>

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

NOTE 8 - INCOME TAXES

The District levies a voted income tax of one and one half percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1997 and is in effect for a continual period of time. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$1,279,935 for fiscal year 2011. Taxes receivable reported in the basic financial statements includes \$437,540 of income tax receivable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance <u>7/1/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>6/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 250,000	\$ -	\$ -	\$ 250,000
Total capital assets, not being depreciated	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,473,509	5,730	-	4,479,239
Buildings and improvements	21,763,140	-	-	21,763,140
Furniture and equipment	801,406	8,594	-	810,000
Vehicles	1,003,088	-	-	1,003,088
Total capital assets, being depreciated	<u>28,041,143</u>	<u>14,324</u>	<u>-</u>	<u>28,055,467</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(705,178)	(223,819)	-	(928,997)
Buildings and improvements	(1,701,295)	(551,248)	-	(2,252,543)
Furniture and equipment	(238,787)	(48,598)	-	(287,385)
Vehicles	(740,369)	(48,510)	-	(788,879)
Total accumulated depreciation	<u>(3,385,629)</u>	<u>(872,175)</u>	<u>-</u>	<u>(4,257,804)</u>
Governmental activities capital assets, net	<u>\$ 24,905,514</u>	<u>\$ (857,851)</u>	<u>\$ -</u>	<u>\$ 24,047,663</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 606,650
Vocational	143
<u>Support services:</u>	
Administration	18,896
Operations and maintenance	7,143
Pupil transportation	48,510
Central	3,763
Extracurricular activities	155,477
Food service operations	<u>31,593</u>
Total depreciation expense	<u>\$ 872,175</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 10 - CAPITAL LEASE - LESSEE DISCLOSURE

In a prior year, the District has entered into a lease for the acquisition of school buses. This lease meets the criteria of a capital lease as defined by GAAP, which define a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments are reflected as debt service expenditures in the financial statements.

Capital assets consisting of vehicles have been capitalized in the amount of \$138,000. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$60,375, leaving a current book value of \$77,625. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$35,797 paid by the bond retirement fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011.

<u>Fiscal Year Ending</u>	<u>Payments</u>
2012	<u>\$ 39,203</u>
Total minimum lease payment	39,203
Less: amount representing interest	<u>(1,742)</u>
Present value of minimum lease payments	<u>\$ 37,461</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The following is a description of the District's long-term debt obligations outstanding as of June 30, 2011:

	Balance Outstanding <u>6/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>6/30/11</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
General obligation current interest bonds	\$ 6,585,000	\$ -	\$ (215,000)	\$ 6,370,000	\$ -
General obligation capital appreciation bonds	195,265	-	-	195,265	102,540
General obligation capital appreciation bonds-accreted interest	164,981	38,137	-	203,118	106,665
Energy conservation bonds	-	715,000	-	715,000	50,000
Capital lease obligation payable	73,258	-	(35,797)	37,461	37,461
Compensated absences payable	<u>517,718</u>	<u>104,090</u>	<u>(83,350)</u>	<u>538,458</u>	<u>83,884</u>
Total long-term obligations	<u>\$ 7,536,222</u>	<u>\$ 857,227</u>	<u>\$ (334,147)</u>	8,059,302	<u>\$ 380,550</u>
				Add: Unamortized premium on bonds	<u>76,321</u>
				Total on statement of net assets	<u>\$ 8,135,623</u>

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

The capital appreciation bonds mature at a redemption price equal to 100% of the principal plus accreted interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$440,000. Total accreted interest of \$203,118 has been included on the statement of net assets.

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

Energy conservation bonds, series 2011: The energy conservation bonds, series 2011, were issued on June 16, 2011, mature on December 1, 2025, and carry an interest rate of 5.45%. The bonds were issued for the purpose of purchasing and installing energy conservation improvements throughout the District. These improvements are not capital in nature and are expensed as incurred in the financial statements. The first payment on the bonds is due December 1, 2011 and thereafter payments are due each June 1 and December 1. Payments will be made from the general fund.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

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

- B.** Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Current Interest Bonds, Series 2004			Capital Appreciation Bonds, Series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ -	\$ 298,608	\$ 298,608	\$ 102,540	\$ 117,460	\$ 220,000
2013	-	298,608	298,608	92,725	127,275	220,000
2014	220,000	294,208	514,208	-	-	-
2015	230,000	285,208	515,208	-	-	-
2016	240,000	275,808	515,808	-	-	-
2017 - 2021	1,355,000	1,215,509	2,570,509	-	-	-
2022 - 2026	1,690,000	868,248	2,558,248	-	-	-
2027 - 2031	2,140,000	401,500	2,541,500	-	-	-
2032	495,000	12,375	507,375	-	-	-
Total	\$ 6,370,000	\$ 3,950,072	\$ 10,320,072	\$ 195,265	\$ 244,735	\$ 440,000

Fiscal Year Ending June 30,	Energy Conservation Bonds		
	Principal	Interest	Total
2012	\$ 50,000	\$ 35,982	\$ 85,982
2013	50,000	34,880	84,880
2014	50,000	32,155	82,155
2015	50,000	29,430	79,430
2016	50,000	26,705	76,705
2017 - 2021	240,000	93,195	333,195
2022 - 2026	225,000	30,656	255,656
Total	\$ 715,000	\$ 283,003	\$ 998,003

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 11 - 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, 2011, are a voted debt margin of \$1,242,335 (including available funds of \$197,366) and an unvoted debt margin of \$84,558.

NOTE 12 - RISK MANAGEMENT

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

The District provides medical/surgical benefits to its employees through the United Health Care Inc., a fully funded program. The District has elected to provide employee life insurance and accidental death and dismemberment insurance through Sun Financial, a fully funded program. Dental insurance that is 100% employee funded is also offered.

Postemployment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

During fiscal year 2011, the District participated in a joint self-insurance pool pursuant to Revised Code Section 2744.081 administered through the Schools of Ohio Risk Sharing Authority (SORSA). Insurances are provided by SORSA through a self-funded plan. Reinsurance is provided by The Travelers Insurance Companies and United Educators for all liability protection. Coverages provided by SORSA are as follows:

Building and contents - replacement cost	\$30,638,078
Automobile liability	12,000,000
Uninsured motorists	2,000,000
Crime	100,000
General liability:	
Per occurrence	12,000,000
Total per year	12,000,000

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 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 12 - RISK MANAGEMENT - (Continued)

OASBO WORKERS' COMPENSATION GROUP RATING

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

NOTE 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 "Media/Financial Reports".

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$151,847, \$135,202 and \$87,109, respectively; 44.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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 website at www.strsoh.org, under "Publications".

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 13 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2011, 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, 2011, 2010 and 2009 were \$501,352, \$489,559 and \$432,329, respectively; 81.84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$26,931 made by the District and \$19,236 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, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 2011 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 "*Media/Financial Reports*".

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 2011, 1.43 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 2011, 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, 2011, 2010 and 2009 were \$34,886, \$21,245 and \$55,380, respectively; 44.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$9,772, \$8,040 and \$7,187, respectively; 44.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the 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, under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$38,566, \$37,658 and \$33,256, respectively; 81.84 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 15 - 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 15 - 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	\$ (235,254)
Net adjustment for revenue accruals	(4,401)
Net adjustment for expenditure accruals	(75,970)
Net adjustment for other sources/uses	(24,884)
Funds budgeted elsewhere	35,913
Adjustment for encumbrances	74,782
GAAP basis	\$ (229,814)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, internal service rotary fund, special enterprise fund and public school support fund.

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 17 - SET-ASIDES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 17 - SET-ASIDES - (Continued)

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	145,984	145,984
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(317,323)	(248,503)
Excess qualified expenditures from prior years	(161,308)	-
Current year offsets	-	(233,066)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (332,647)</u>	<u>\$ (335,585)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

During fiscal year 2004, the District issued \$7,775,265 in capital related bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The District is responsible for tracking the amount of the proceeds that may be used as an offset in future periods, which was \$7,775,265 at June 30, 2011.

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 74,822
Other governmental	<u>43,544</u>
Total	<u>\$ 118,366</u>

Mechanicsburg Exempted Village School District

Champaign County

Schedule of Federal Awards Expenditures

For The Fiscal Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Pass-Through Entity Number	Federal Receipts	Federal Disbursements
U.S. DEPARTMENT OF EDUCATION				
(Pass through Ohio Department of Education)				
Title I Cluster:				
Title I; Grants to LEA-Formula	84.010	572-9011	\$ 221,209	\$ 168,650
Title I; Grants to LEA-Formula	84.010	572-9010	16,730	16,730
Title I; School Improvement AARA	84.389	536-9010	11,275	11,275
Title I; ARRA	84.389	572-9320	<u>7,744</u>	<u>7,744</u>
Total Title 1			<u>256,958</u>	<u>204,399</u>
Special Education Cluster:				
Title VI-B	84.027	516-9011	177,759	177,759
Title VI-B; ARRA	84.391	516-9320	<u>78,246</u>	<u>78,246</u>
Total Title VI-B			<u>256,005</u>	<u>256,005</u>
Rural and Low Income Grant	84.358	516-9011	43,660	43,660
Total Rural and Low Income Grant			<u>43,660</u>	<u>43,660</u>
Title II D; Educational Technology State Grants	84.386	533-9320	735	735
Total Title II-D			<u>735</u>	<u>735</u>
Title II A; Improving Teacher Quality	84.405	590-9011	40,717	40,717
Total Title II-A			<u>40,717</u>	<u>40,717</u>
State Fiscal Stabilization Fund; ARRA	84.394	532-9320	363,883	363,883
Total State Fiscal Stabilization Fund			<u>363,883</u>	<u>363,883</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>961,958</u>	<u>909,399</u>
U.S. DEPARTMENT OF AGRICULTURE				
Child Nutrition Cluster:				
(Direct Program: Non-Cash Assistance):				
Food Distribution Program	10.555	N/A	21,584	21,584
(Passed through Ohio Department of Education-Cash Assistance):				
National School Lunch Program	10.555	2011	<u>95,002</u>	<u>95,002</u>
Total Nutrition Cluster			<u>116,586</u>	<u>116,586</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>116,586</u>	<u>116,586</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,078,544</u>	<u>\$ 1,025,985</u>

See notes to the Schedule of Federal Awards Expenditures

MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2011

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain expenditures are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2011, the District had commodities in inventory recorded in the Food Service Fund.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To 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 Mechanicsburg Exempted Village School District, Champaign County, Ohio (the District) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated March 26, 2012, wherein we noted the District implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the 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 material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the 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 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris". The signature is written in a cursive, slightly slanted style.

Charles E. Harris & Associates, Inc.

March 26, 2012

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

Compliance

We have audited the compliance of the Mechanicsburg Exempted Village School District, Champaign County (the District), with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The 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 opine on the District's compliance based on our audit.

Our compliance audit followed 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*. These 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 District's compliance with these 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 District's compliance with these requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as finding 2011-MECH-01.

Internal Control Over Compliance

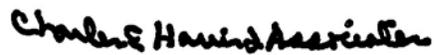
The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over 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 the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2011-MECH-01 to be a material weakness.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the entity, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris and Associates". The signature is written in a cursive, slightly slanted style.

Charles E. Harris and Associates, Inc.
March 26, 2012

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY
June 30, 2011**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Unqualified Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510	Yes
(d)(1)(vii)	Major Programs:	Title I: CFDA #84.010 and #84.389 State Fiscal Stabilization Fund: CFDA#84.394
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: >\$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

**MECHANICSBURG EXEMPTED VILLAGE SCHOOL DISTRICT
CHAMPAIGN COUNTY, OHIO
SCHEDULE OF AUDIT FINDINGS
June 30, 2011**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number: 2011-MECH-01 – Noncompliance/Material Weakness

31 U.S.C. 7502 (a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in federal awards to have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearinghouse within nine months after year-end.

The District maintains its accounting records on the cash basis during the fiscal year and contracts with a consultant to prepare its annual financial statements in accordance with generally accepted accounting principles. This process was delayed for the fiscal year ending June 30, 2011 and the District obtained a thirty day extension of time until December 31, 2011 from the Auditor of State to file its annual financial statements. However, this did not allow enough time for the timely completion of the audit and the District did not file a Data Collection Form by March 30, 2012.

The failure to file a timely report with the Federal Audit Clearinghouse jeopardizes the District's eligibility for future federal awards.

We recommend that the District begin the year-end financial statement conversion process sooner so as to allow more time for the audit process.

Management Response:

The District will develop a schedule in conjunction with their consultant so as to allow for the timely completion of the audit.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ended June 30, 2010, reported no material citations or recommendations.

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Independent Accountants' Report on Applying Agreed-Upon Procedure

Mechanicsburg Exempted Village School District
Champaign County
60 High Street
Mechanicsburg, Ohio 43044

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Mechanicsburg Exempted Village School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board of Education amended its anti-harassment policy at its meeting on February 14, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Charles Harris Associates

Charles E. Harris & Associates, Inc.
March 26, 2012



Dave Yost • Auditor of State

MECHANICSBURG EVSD

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 17, 2012**