

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

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

BARB DONOHUE, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mount Vernon City School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 25, 2010

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2009, which collectively comprise Mount Vernon City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mount Vernon City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

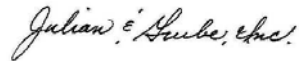
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of Mount Vernon City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



Julian & Grube, Inc.
December 7, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The management's discussion and analysis of the Mount Vernon City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2009 are as follows:

- In total, net assets of governmental activities decreased \$1,581,800 which represents a 7.53% decrease from 2008.
- General revenues accounted for \$31,715,352 in revenue or 84.06% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,014,579 or 15.94% of total revenues of \$37,729,931.
- The District had \$39,311,731 in expenses related to governmental activities; \$6,014,579 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$31,715,352 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$32,328,264 in revenues and other financing sources and \$33,188,703 in expenditures and other financing uses. During fiscal year 2009, the general fund's fund balance decreased \$860,439 from \$9,317,810 to \$8,457,371.
- The bond retirement fund had \$1,266,042 in revenues and other financing sources and \$884,424 in expenditures. During fiscal year 2009, the bond retirement fund's fund balance increased \$381,618 from \$2,210,227 to \$2,591,845.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2009?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-52 of this report.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole. A comparative analysis has been provided.

The table below provides a summary of the District's net assets at June 30, 2009 and June 30, 2008.

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<u>Assets</u>		
Current and other assets	\$ 27,690,747	\$ 31,376,780
Capital assets, net	<u>13,545,164</u>	<u>13,803,772</u>
Total assets	<u>41,235,911</u>	<u>45,180,552</u>
<u>Liabilities</u>		
Current liabilities	12,514,976	14,587,280
Long-term liabilities	<u>9,283,825</u>	<u>9,574,362</u>
Total liabilities	<u>21,798,801</u>	<u>24,161,642</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,991,573	5,674,912
Restricted	4,741,585	4,882,372
Unrestricted	<u>8,703,952</u>	<u>10,461,626</u>
Total net assets	<u>\$ 19,437,110</u>	<u>\$ 21,018,910</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$19,437,110. Of this total, \$8,703,952 is unrestricted in use.

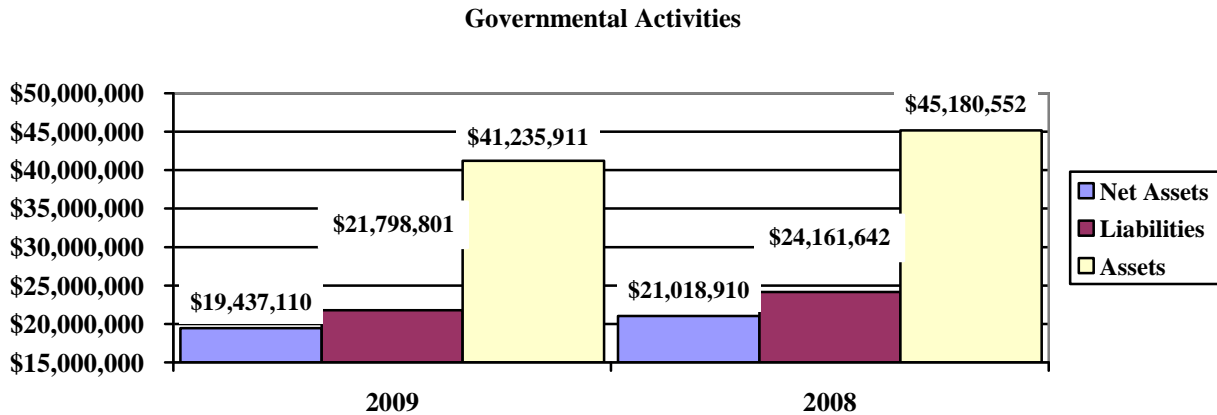
**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

At fiscal year-end, capital assets represented 32.85% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$5,991,573. 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, \$4,741,585, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$8,703,952 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below illustrates the District's assets, liabilities and net assets at June 30, 2009 and June 30, 2008.



The table below shows the change in net assets for fiscal years 2009 and 2008. Operation of non-instructional services expenses for 2008 have been reclassified to food service operations and other non-instructional services to conform to the 2009 presentation.

Change in Net Assets

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,951,376	\$ 1,953,267
Operating grants and contributions	4,030,051	4,772,889
Capital grants and contributions	33,152	-
General revenues:		
Property taxes	16,076,748	12,392,178
Payment in lieu of taxes	83,877	795,330
Grants and entitlements	15,315,758	15,003,758
Investment earnings	205,308	630,559
Other	33,661	52,370
Total revenues	<u>37,729,931</u>	<u>35,600,351</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Expenses</u>	Change in Net Assets	
	Governmental Activities	Governmental Activities
	<u>2009</u>	<u>2008</u>
Program expenses:		
Instruction:		
Regular	\$ 17,769,188	\$ 16,160,375
Special	4,170,514	4,307,831
Vocational	392,430	358,379
Other	-	1,544
Support services:		
Pupil	1,864,985	1,729,079
Instructional staff	2,600,157	2,169,248
Board of education	30,094	37,936
Administration	2,820,194	2,233,061
Fiscal	2,342,902	2,867,743
Business	185,168	214,919
Operations and maintenance	2,869,598	4,399,730
Pupil transportation	1,483,630	1,541,338
Central	151,100	147,095
Operation of non-instructional services:		
Other non-instructional services	233,821	177,738
Food service operations	1,307,052	1,230,639
Extracurricular activities	734,747	641,929
Interest and fiscal charges	<u>356,151</u>	<u>325,291</u>
Total expenses	<u>39,311,731</u>	<u>38,543,875</u>
Change in net assets	(1,581,800)	(2,943,524)
Net assets at beginning of year	<u>21,018,910</u>	<u>23,962,434</u>
Net assets at end of year	<u>\$ 19,437,110</u>	<u>\$ 21,018,910</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,581,800. Total governmental expenses of \$39,311,731 were offset by program revenues of \$6,014,579 and general revenues of \$31,715,352. Program revenues supported 15.30% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.20% of total governmental revenue.

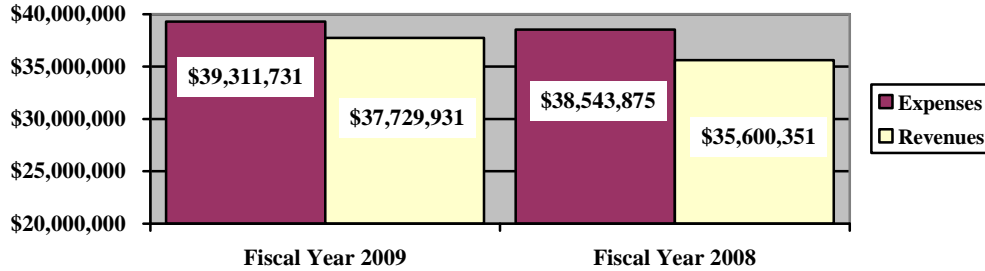
The largest expense of the District is for instructional programs. Instruction expenses totaled \$22,332,132 or 56.81% of total governmental expenses for fiscal year 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2009 and 2008.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2009 and 2008. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Operation of non-instructional services expenses for 2008 have been reclassified to food service operations and other non-instructional services to conform to the 2009 presentation.

	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>
Program expenses				
Instruction:				
Regular	\$ 17,769,188	\$ 16,150,466	\$ 16,160,375	\$ 14,534,959
Special	4,170,514	2,273,141	4,307,831	1,057,951
Vocational	392,430	341,496	358,379	305,082
Other	-	-	1,544	1,544
Support services:				
Pupil	1,864,985	1,603,008	1,729,079	1,622,975
Instructional staff	2,600,157	2,205,361	2,169,248	2,165,878
Board of education	30,094	30,094	37,936	37,936
Administration	2,820,194	2,777,392	2,233,061	2,233,061
Fiscal	2,342,902	2,332,485	2,867,743	2,853,943
Business	185,168	185,168	214,919	214,919
Operations and maintenance	2,869,598	2,837,721	4,399,730	4,375,730
Pupil transportation	1,483,630	1,349,735	1,541,338	1,495,878
Central	151,100	150,113	147,095	147,095
Operation of non-instructional services:				
Other non-instructional services	233,821	18,027	177,738	(27,224)
Food service operations	1,307,052	83,455	1,230,639	(46,516)
Extracurricular activities	734,747	603,339	641,929	519,217
Interest and fiscal charges	<u>356,151</u>	<u>356,151</u>	<u>325,291</u>	<u>325,291</u>
Total expenses	<u>\$ 39,311,731</u>	<u>\$ 33,297,152</u>	<u>\$ 38,543,875</u>	<u>\$ 31,817,719</u>

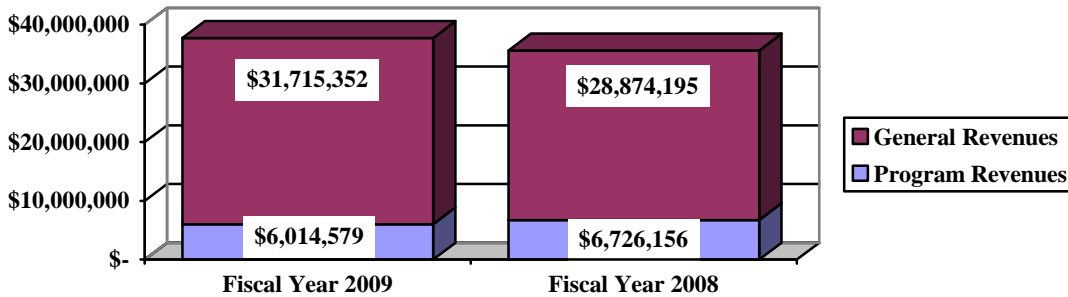
**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The dependence upon tax and other general revenues for governmental activities is apparent, 84.03% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.70%. The District's taxpayers and grants and entitlements received from the State of Ohio that are not restricted in use are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2009 and 2008.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$12,838,465, which is lower than last year's total of \$13,918,566. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and June 30, 2008.

	<u>Fund Balance June 30, 2009</u>	<u>Fund Balance June 30, 2008</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
General	\$ 8,457,371	\$ 9,317,810	\$ (860,439)	(9.23) %
Bond Retirement	2,591,845	2,210,227	381,618	17.27 %
Other Governmental	<u>1,789,249</u>	<u>2,390,529</u>	<u>(601,280)</u>	<u>(25.15) %</u>
Total	<u>\$ 12,838,465</u>	<u>\$ 13,918,566</u>	<u>\$ (1,080,101)</u>	<u>(7.76) %</u>

General Fund

The District's general fund balance decreased \$860,439 during fiscal year 2009.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 14,287,534	\$ 10,977,233	\$ 3,310,301	30.16 %
Tuition and fees	1,183,533	1,188,336	(4,803)	(0.40) %
Earnings on investments	143,649	414,751	(271,102)	(65.37) %
Intergovernmental	16,133,083	16,006,375	126,708	0.79 %
Payment in lieu of taxes	492,542	566,072	(73,530)	(12.99) %
Other revenues	<u>41,538</u>	<u>39,955</u>	<u>1,583</u>	3.96 %
Total	<u>\$ 32,281,879</u>	<u>\$ 29,192,722</u>	<u>\$ 3,089,157</u>	10.58 %
<u>Expenditures</u>				
Instruction	\$ 20,507,183	\$ 18,743,315	\$ 1,763,868	9.41 %
Support services	11,816,087	12,114,672	(298,585)	(2.46) %
Extracurricular activities	524,317	480,712	43,605	9.07 %
Capital outlay	46,385	-	46,385	100.00 %
Debt service	<u>109,403</u>	<u>105,108</u>	<u>4,295</u>	4.09 %
Total	<u>\$ 33,003,375</u>	<u>\$ 31,443,807</u>	<u>\$ 1,559,568</u>	4.96 %

Revenues of the general fund increased \$3,089,157 or 10.58%. The most significant increase was in the area of taxes. Tax revenue increased \$3,310,301 or 30.16%. This increase is primarily due to a \$1,980,557 variance in the amount of tax advance that was available to the District from the county auditor at June 30, 2009 versus June 30, 2008. This variance resulted in more tax revenue being reported in fiscal year 2009. The amount of tax advances available from the county auditor can vary depending upon when tax bills are mailed.

Expenditures of the general fund increased \$1,559,568 or 4.96%. The most significant increase was in the area of instruction expenditures. Instruction expenditures increased \$1,763,868 or 9.41%, mainly due to an increase in the costs of purchased services during fiscal year 2009 compared to fiscal year 2008.

Bond Retirement Fund

The bond retirement fund had \$1,266,042 in revenues and other financial sources and \$884,424 in expenditures. During fiscal year 2009, the bond retirement fund's fund balance increased \$381,618 from \$2,210,227 to \$2,591,845.

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 2009, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$32,737,506 and final budgeted revenues and other financing sources were \$30,812,953. Actual revenues and other financing sources for fiscal year 2009 were \$30,473,611. This represents a \$339,342 decrease under final budgeted amounts.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$34,634,015, which matched the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2009 totaled \$33,506,795, which was \$1,127,220 less than the final budgeted amounts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the District had \$13,545,164 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2009 balances compared to June 30, 2008 balances:

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

	Governmental Activities	
	2009	2008
Land	\$ 230,664	\$ 230,664
Land improvements	21,862	24,787
Building and improvements	11,584,407	11,850,887
Furniture, fixtures and equipment	825,628	711,323
Vehicles	882,603	986,111
Total	\$ 13,545,164	\$ 13,803,772

The overall decrease in capital assets of \$258,608 is due to depreciation expense of \$657,904 exceeding capital outlays of \$399,296 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2009, the District had \$6,425,000 in series 2005 current interest bonds, \$255,000 in capital appreciation bonds, \$129,074 in accreted interest, \$778,581 in energy conservation loans and \$95,010 in capital lease obligations. Of this total, \$686,603 is due within one year and \$6,996,062 is due in more than one year. The following table summarizes the bonds, loans and capital lease obligations outstanding.

Outstanding Debt, at Year End

	Activities 2009	Activities 2008
Refunding bonds - series 2005		
Current interest bonds	\$ 6,425,000	\$ 6,845,000
Capital appreciation bonds	255,000	255,000
Accreted interest	129,074	88,675
Energy conservation loan - 2000	83,276	161,963
Energy conservation loan - 2008	695,305	767,000
Capital leases	95,010	149,553
Total	\$ 7,682,665	\$ 8,267,191

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

At June 30, 2009, the District's overall legal debt margin was \$44,235,494 and an unvoted debt margin of \$536,929. See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

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

The enrollment of the District has increased over 2%, but because of the gain cap in the State Biennial Budget (HB1), the District will receive no additional dollars for the students. How the legislature plans to fund education programs during a weakened economy remains a concern. The current five year forecast for the District projects a deficit cash balance for fiscal years 2012, 2013 and 2014. The District has made cuts and will continue to look at ways to reduce spending. The District must continue to maintain financial planning and prudent fiscal management.

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 12,446,352
Receivables:	
Taxes	13,964,865
Accounts	3,681
Intergovernmental.	5,063
Accrued interest.	18
Revenue in lieu of taxes	1,221,127
Prepayments.	31,388
Materials and supplies inventory	18,253
Capital assets:	
Land	230,664
Depreciable capital assets, net	13,314,500
Total capital assets, net.	<u>13,545,164</u>
Total assets.	<u>41,235,911</u>
Liabilities:	
Accounts payable.	858,377
Contracts payable.	21,333
Accrued wages and benefits	2,093,119
Pension obligation payable.	786,575
Intergovernmental payable	96,495
Accrued interest payable	22,155
Unearned revenue	8,173,106
Claims payable	463,816
Long-term liabilities:	
Due within one year.	859,569
Due in more than one year	<u>8,424,256</u>
Total liabilities	<u>21,798,801</u>
Net Assets:	
Invested in capital assets, net of related debt.	5,991,573
Restricted for:	
Capital projects	1,702,962
Debt service.	2,574,465
State funded projects	530
Federally funded projects	5,948
Student activities.	47,115
Other purposes.	410,565
Unrestricted	<u>8,703,952</u>
Total net assets.	<u><u>\$ 19,437,110</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					Governmental Activities
Instruction:					
Regular	\$ 17,769,188	\$ 1,294,295	\$ 324,427	\$ -	\$ (16,150,466)
Special	4,170,514	2,084	1,895,289	-	(2,273,141)
Vocational	392,430	-	50,934	-	(341,496)
Support services:					
Pupil	1,864,985	13,404	248,573	-	(1,603,008)
Instructional staff	2,600,157	-	394,796	-	(2,205,361)
Board of education	30,094	-	-	-	(30,094)
Administration	2,820,194	-	42,802	-	(2,777,392)
Fiscal	2,342,902	-	10,417	-	(2,332,485)
Business	185,168	-	-	-	(185,168)
Operations and maintenance	2,869,598	7,877	24,000	-	(2,837,721)
Pupil transportation	1,483,630	-	100,743	33,152	(1,349,735)
Central	151,100	-	987	-	(150,113)
Operation of non-instructional services:					
Other non-instructional services	233,821	-	215,794	-	(18,027)
Food service operations	1,307,052	503,821	719,776	-	(83,455)
Extracurricular activities	734,747	129,895	1,513	-	(603,339)
Interest and fiscal charges	356,151	-	-	-	(356,151)
Total governmental activities	\$ 39,311,731	\$ 1,951,376	\$ 4,030,051	\$ 33,152	(33,297,152)

General Revenues:

Property taxes levied for:	
General purposes	14,286,368
Debt service	851,800
Capital projects	938,580
Payment in lieu of taxes	83,877
Grants and entitlements not restricted to specific programs	15,315,758
Investment earnings	205,308
Miscellaneous	33,661
Total general revenues	31,715,352
Change in net assets	(1,581,800)
Net assets at beginning of year	21,018,910
Net assets at end of year	\$ 19,437,110

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<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	\$ 6,236,174	\$ 2,286,334	\$ 2,129,446	\$ 10,651,954
Receivables:				
Taxes	12,366,446	822,889	775,530	13,964,865
Accounts	3,614	-	67	3,681
Intergovernmental	5,063	-	-	5,063
Accrued interest	-	-	18	18
Interfund receivable	6,795	-	-	6,795
Loans to other funds	15,899	-	-	15,899
Revenue in lieu of taxes	1,221,127	-	-	1,221,127
Prepayments	30,493	-	895	31,388
Materials and supplies inventory	-	-	18,253	18,253
Restricted assets:				
Equity in pooled cash and cash equivalents	350,233	-	-	350,233
Total assets	<u>\$ 20,235,844</u>	<u>\$ 3,109,223</u>	<u>\$ 2,924,209</u>	<u>\$ 26,269,276</u>
Liabilities:				
Accounts payable	\$ 389,680	\$ -	\$ 468,697	\$ 858,377
Contracts payable	-	-	21,333	21,333
Accrued wages and benefits	1,976,802	-	116,317	2,093,119
Compensated absences payable	104,442	-	-	104,442
Pension obligation payable.	736,985	-	49,590	786,575
Intergovernmental payable.	86,958	-	9,537	96,495
Interfund payable.	-	-	6,795	6,795
Loans from other funds.	-	-	15,899	15,899
Deferred revenue.	1,264,165	4,775	5,730	1,274,670
Unearned revenue	7,219,441	512,603	441,062	8,173,106
Total liabilities	<u>11,778,473</u>	<u>517,378</u>	<u>1,134,960</u>	<u>13,430,811</u>
Fund Balances:				
Reserved for encumbrances	385,502	-	202,247	587,749
Reserved for materials and supplies inventory.	-	-	18,253	18,253
Reserved for prepayments	30,493	-	895	31,388
Reserved for property tax unavailable for appropriation	5,062,004	305,511	328,738	5,696,253
Reserved for loans to other funds	15,899	-	-	15,899
Reserved for textbooks/instructional supplies	317,081	-	-	317,081
Reserved for school bus purchases	33,152	-	-	33,152
Reserved for debt service.	-	2,286,334	-	2,286,334
Unreserved, undesignated (deficit), reported in:				
General fund	2,613,240	-	-	2,613,240
Special revenue funds.	-	-	(47,452)	(47,452)
Capital projects funds.	-	-	1,286,568	1,286,568
Total fund balances	<u>8,457,371</u>	<u>2,591,845</u>	<u>1,789,249</u>	<u>12,838,465</u>
Total liabilities and fund balances	<u>\$ 20,235,844</u>	<u>\$ 3,109,223</u>	<u>\$ 2,924,209</u>	<u>\$ 26,269,276</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balances		\$	12,838,465
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			13,545,164
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	95,506	
Revenue in lieu of taxes receivable		1,176,271	
Intergovernmental receivable		2,893	
Total			1,274,670
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			980,349
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(22,155)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		(1,496,718)	
Capital lease obligations payable		(95,010)	
Energy conservation loans payable		(778,581)	
General obligation bonds payable		(6,809,074)	
Total			(9,179,383)
Net assets of governmental activities		\$	19,437,110

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 14,287,534	\$ 852,086	\$ 938,799	\$ 16,078,419
Tuition.	1,182,860	-	-	1,182,860
Transportation fees	673	-	-	673
Charges for services.	-	-	503,821	503,821
Earnings on investments.	143,649	-	54,716	198,365
Extracurricular.	-	-	148,372	148,372
Classroom materials and fees.	-	-	105,230	105,230
Rental income	7,877	-	-	7,877
Contributions and donations.	318	-	5,712	6,030
Other local revenues.	33,343	-	2,543	35,886
Payment in lieu of taxes	492,542	-	-	492,542
Intergovernmental - state.	16,133,083	234,772	715,808	17,083,663
Intergovernmental - federal	-	-	2,555,969	2,555,969
Total revenues.	<u>32,281,879</u>	<u>1,086,858</u>	<u>5,030,970</u>	<u>38,399,707</u>
Expenditures:				
Current:				
Instruction:				
Regular	16,996,021	-	608,473	17,604,494
Special.	3,175,344	-	922,095	4,097,439
Vocational.	335,818	-	-	335,818
Support services:				
Pupil.	1,510,951	-	336,833	1,847,784
Instructional staff	1,421,312	-	1,119,728	2,541,040
Board of education	30,094	-	-	30,094
Administration.	2,684,181	-	58,621	2,742,802
Fiscal	2,217,377	28,920	32,978	2,279,275
Business	190,089	-	-	190,089
Operations and maintenance.	2,595,623	-	25,898	2,621,521
Pupil transportation	1,016,345	-	375,927	1,392,272
Central.	150,115	-	985	151,100
Operation of non-instructional services:				
Other non-instructional services	-	-	224,446	224,446
Food service operations	-	-	1,291,220	1,291,220
Extracurricular activities.	524,317	-	144,746	669,063
Facilities acquisition and construction	-	-	496,444	496,444
Capital outlay	46,385	-	-	46,385
Debt service:				
Principal retirement	100,928	570,382	-	671,310
Interest and fiscal charges	8,475	285,122	-	293,597
Total expenditures	<u>33,003,375</u>	<u>884,424</u>	<u>5,638,394</u>	<u>39,526,193</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(721,496)</u>	<u>202,434</u>	<u>(607,424)</u>	<u>(1,126,486)</u>
Other financing sources (uses):				
Transfers in	-	179,184	6,144	185,328
Transfers (out).	(185,328)	-	-	(185,328)
Capital lease transaction	46,385	-	-	46,385
Total other financing sources (uses).	<u>(138,943)</u>	<u>179,184</u>	<u>6,144</u>	<u>46,385</u>
Net change in fund balances	<u>(860,439)</u>	<u>381,618</u>	<u>(601,280)</u>	<u>(1,080,101)</u>
Fund balances at beginning of year.	<u>9,317,810</u>	<u>2,210,227</u>	<u>2,390,529</u>	<u>13,918,566</u>
Fund balances at end of year.	<u>\$ 8,457,371</u>	<u>\$ 2,591,845</u>	<u>\$ 1,789,249</u>	<u>\$ 12,838,465</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds		\$ (1,080,101)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		
Capital asset additions	\$ 399,296	
Current year depreciation	<u>(657,904)</u>	
Total		(258,608)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Increase in accrued interest payable	(22,155)	
Accretion of interest on "capital appreciation" bonds	<u>(40,399)</u>	
Total		(62,554)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(1,671)	
Payment in lieu of taxes	(408,665)	
Intergovernmental	<u>(267,713)</u>	
Total		(678,049)
Repayment of bond, loan and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:		
Current interest bonds	420,000	
Energy conservation loans	150,382	
Capital leases	<u>100,928</u>	
Total		671,310
Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(46,385)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.		
		(189,547)
Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net expense of the internal service fund is allocated among the governmental activities.		
		<u>62,134</u>
Change in net assets of governmental activities		<u><u>\$ (1,581,800)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Taxes	\$ 13,295,530	\$ 12,513,921	\$ 12,513,921	\$ -
Tuition	1,256,741	1,182,860	1,182,860	-
Transportation fees	715	673	673	-
Earnings on investments	150,349	141,510	141,510	-
Rental income	8,369	7,877	7,877	-
Contributions and donations	338	318	318	-
Other local revenues	62,446	23,199	19,524	(3,675)
Payment in lieu of taxes	450,296	447,686	447,686	-
Intergovernmental - state	17,125,992	16,130,913	16,130,913	-
Total revenues	<u>32,350,776</u>	<u>30,448,957</u>	<u>30,445,282</u>	<u>(3,675)</u>
Expenditures:				
Current:				
Instruction:				
Regular	17,414,284	17,414,284	16,847,507	566,777
Special	3,279,320	3,279,320	3,172,589	106,731
Vocational	353,121	353,121	341,628	11,493
Support services:				
Pupil	1,563,724	1,563,724	1,512,830	50,894
Instructional staff	1,540,876	1,540,876	1,490,726	50,150
Board of education	55,941	55,941	54,120	1,821
Administration	2,782,350	2,782,350	2,691,794	90,556
Fiscal	2,311,897	2,311,897	2,236,653	75,244
Business	206,824	206,824	200,093	6,731
Operations and maintenance	3,081,310	3,081,310	2,981,024	100,286
Pupil transportation	1,141,687	1,141,687	1,104,529	37,158
Central	155,165	155,165	150,115	5,050
Extracurricular activities	537,846	537,846	520,341	17,505
Total expenditures	<u>34,424,345</u>	<u>34,424,345</u>	<u>33,303,949</u>	<u>1,120,396</u>
Excess of expenditures over revenues	<u>(2,073,569)</u>	<u>(3,975,388)</u>	<u>(2,858,667)</u>	<u>1,116,721</u>
Other financing sources (uses):				
Refund of prior year expenditure	11,744	11,054	11,054	-
Transfers in	356,632	335,667	-	(335,667)
Transfers (out)	(191,563)	(191,563)	(185,328)	6,235
Advances in	18,009	16,950	16,950	-
Advances (out)	(18,107)	(18,107)	(17,518)	589
Sale of capital assets	345	325	325	-
Total other financing sources (uses)	<u>177,060</u>	<u>154,326</u>	<u>(174,517)</u>	<u>(328,843)</u>
Net change in fund balance	(1,896,509)	(3,821,062)	(3,033,184)	787,878
Fund balance at beginning of year	8,064,654	8,064,654	8,064,654	-
Prior year encumbrances appropriated	796,580	796,580	796,580	-
Fund balance at end of year	<u>\$ 6,964,725</u>	<u>\$ 5,040,172</u>	<u>\$ 5,828,050</u>	<u>\$ 787,878</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 1,444,165
Total assets	<u>1,444,165</u>
Liabilities:	
Current liabilities:	
Claims payable.	<u>463,816</u>
Total liabilities	<u>463,816</u>
Net Assets:	
Unrestricted.	<u>980,349</u>
Total net assets	<u><u>\$ 980,349</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services	\$ 3,677,674
Total operating revenues	<u>3,677,674</u>
Operating expenses:	
Fringe benefits.	234,421
Purchased services.	3,387,991
Materials and supplies	1,100
Other.	<u>301</u>
Total operating expenses.	<u>3,623,813</u>
Operating income	53,861
Nonoperating revenues:	
Interest revenue	<u>8,273</u>
Total nonoperating revenues.	<u>8,273</u>
Change in net assets	62,134
Net assets at beginning of year.	<u>918,215</u>
Net assets at end of year	<u><u>\$ 980,349</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 3,677,674
Cash payments for employee benefits	(236,059)
Cash payments for purchased services	(3,395,952)
Cash payments for materials and supplies	(1,100)
Cash payments for other expenses	(301)
	44,262
 Net cash provided by operating activities	
	44,262
 Cash flows from investing activities:	
Interest received.	8,273
	8,273
 Net cash provided by investing activities	
	8,273
 Net increase in cash and investments	
	52,535
 Cash and cash equivalents at beginning of year. . .	
	1,391,630
Cash and cash equivalents at end of year	
	\$ 1,444,165
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 53,861
 Changes in assets and liabilities:	
Decrease in accrued wages	(654)
Decrease in intergovernmental payable	(984)
Decrease in claims payable.	(7,961)
	(9,600)
 Net cash provided by operating activities	
	\$ 44,262

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,821	\$ 41,252
Total assets.	2,821	\$ 41,252
Liabilities:		
Accounts payable.	-	\$ 508
Intergovernmental payable	-	220
Due to students	-	40,524
Total liabilities	-	\$ 41,252
Net Assets:		
Held in trust for scholarships	2,821	
Total net assets	\$ 2,821	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 35
Total additions.	35
Deductions:	
Scholarships awarded	50
Total deductions	50
Change in net assets	(15)
Net assets at beginning of year.	2,836
Net assets at end of year	\$ 2,821

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in the 1870's through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Knox County, and includes all of the City of Mount Vernon, the Village of Gambier and portions of Brown, Clinton, College, Harrison, Howard, Liberty, Miller, Monroe, Morgan, Morris, Pike and Pleasant Townships. The District is the 96th largest in the State of Ohio (among 922 school districts) in terms of enrollment. It is staffed by 180 non-certified employees and 333 certified full-time teaching personnel who provide services to 3,966 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

Parochial Schools

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

JOINTLY GOVERNED ORGANIZATIONS

Licking Area Computer Association

The Licking Area Computer Association (LACA) is one of 23 Information Technology Centers in the state of Ohio that make up the Ohio Education Computer Network (OECN). LACA was founded in 1982, and is a non-profit organization, owned and governed by the schools it serves. LACA provides a variety of computer services to its member K-12 districts, including accounting, payroll, student grading, student scheduling, electronic grade books, professional development, Internet, Local Area Network support, library automation, and EMIS reporting to the Ohio Department of Education. The District paid LACA \$152,260 for services in fiscal year 2009. Financial information can be obtained from Sandy Mercer, who serves as Executive Director, at 195 Union Street, Suite C-2, Newark, Ohio 43055.

Knox County Career Center

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following are the District's major governmental funds:

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

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

D. Basis of Accounting

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 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, 2009 are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

By March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

Appropriations:

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2009, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2009. 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, 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$143,649, which includes \$14,530 assigned from other District funds.

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

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

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

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

H. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “loans to/from other funds.” These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net assets date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, certified employees age forty or greater with at least fifteen years of service, classified/administrative employees age fifty or greater with at least ten years of service, classified/administrative employees age forty-five or greater with at least fifteen years of service and classified/administrative employees of any age with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, this revenue includes charges for services to fund self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as nonoperating.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for the food service, special trust and uniform school supplies (all nonmajor governmental funds). The amount also includes amounts restricted by State statute for school bus purchases and textbooks/instructional supplies.

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

P. 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.

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for school bus purchases and textbooks/instructional supplies. See Note 17 for details.

R. Interfund Activity

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2009.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Management information systems	\$ 56
Entry year programs	27
Vocational education enhancement	3,620
Title VI-B	25,263
Title I	74,032

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the management information systems, entry year programs and Title VI-B funds resulted from adjustments for accrued liabilities.

The deficit fund balances in the vocational education enhancement and Title I funds resulted from both the reporting of short-term interfund loans as a fund liability rather than as an other financing source and adjustments for accrued liabilities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Compliance

- i.* The District did not certify proper unencumbered fund balances in noncompliance with Ohio Revised Code 5705.36 for the fiscal year ended June 30, 2009.
- ii.* The District had appropriations exceeding actual resources in noncompliance with Ohio Revised Code Section 5705.36(A)(4) for the fiscal year ended June 30, 2009.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Deposits with Financial Institutions

At June 30, 2009, the carrying amount of all District deposits was \$3,274,318. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2009, \$3,385,498 of the District's bank balance of \$3,635,498 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

B. Investments

As of June 30, 2009, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 9,216,107	\$ 9,216,107
Total	<u>\$ 9,216,107</u>	<u>\$ 9,216,107</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 9,216,107	100.00
Total	<u>\$ 9,216,107</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,274,318
Investments	<u>9,216,107</u>
Total	<u>\$ 12,490,425</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 12,446,352
Private-purpose trust fund	2,821
Agency funds	<u>41,252</u>
Total	<u>\$ 12,490,425</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2009, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 6,795</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

- B.** Loans to/from other funds consisted of the following at June 30, 2009, as reported on the fund statement:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 15,899

- C.** The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances were interfund loans which were not repaid in the current fiscal year.

Loans to/from other governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2009 are reported on the statement of net assets.

- D.** Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from the general fund to:	
Bond retirement fund	\$ 179,184
Nonmajor governmental fund	<u>6,144</u>
Total	<u>\$ 185,328</u>

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, 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 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, 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 calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$5,062,004 in the general fund, \$305,511 in the bond retirement fund and \$328,738 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008 was \$3,288,391 in the general fund, \$198,047 in the bond retirement fund and \$229,258 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 6 - PROPERTY TAXES - (Continued)

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

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 466,539,710	86.14	\$ 517,928,960	96.46
Public utility personal	18,331,290	3.38	19,012,910	3.54
Tangible personal property	<u>56,751,041</u>	<u>10.48</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 541,622,041</u>	<u>100.00</u>	<u>\$ 536,941,870</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$33.83		\$33.93

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, accrued interest and revenue in lieu of taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Taxes	\$ 13,964,865
Accounts	3,681
Intergovernmental	5,063
Accrued interest	18
Revenue in lieu of taxes	<u>1,221,127</u>
Total	<u>\$ 15,194,754</u>

The District has entered into various tax increment financing agreements with local companies for the purpose of various improvements and developments. To encourage these improvements, the companies were granted an exemption from paying property taxes on the improvements and developments; however, payments in lieu of taxes are made to the District in an amount equal to the property taxes that otherwise would have been due in the current year. These payments are being used to finance the District's operations and will continue through fiscal year 2025. All other receivables are expected to be collected in the subsequent year. Receivables have been disaggregated on the face of the basic financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>06/30/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/09</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 230,664	\$ -	\$ -	\$ 230,664
Total capital assets, not being depreciated	<u>230,664</u>	<u>-</u>	<u>-</u>	<u>230,664</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	348,907	-	-	348,907
Buildings and improvements	20,657,981	188,629	-	20,846,610
Furniture, fixtures and equipment	1,778,186	210,667	-	1,988,853
Vehicles	<u>1,675,327</u>	<u>-</u>	<u>-</u>	<u>1,675,327</u>
Total capital assets, being depreciated	<u>24,460,401</u>	<u>399,296</u>	<u>-</u>	<u>24,859,697</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(324,120)	(2,925)	-	(327,045)
Buildings and improvements	(8,807,094)	(455,109)	-	(9,262,203)
Furniture, fixtures and equipment	(1,066,863)	(96,362)	-	(1,163,225)
Vehicles	<u>(689,216)</u>	<u>(103,508)</u>	<u>-</u>	<u>(792,724)</u>
Total accumulated depreciation	<u>(10,887,293)</u>	<u>(657,904)</u>	<u>-</u>	<u>(11,545,197)</u>
Governmental activities capital assets, net	<u>\$ 13,803,772</u>	<u>\$ (258,608)</u>	<u>\$ -</u>	<u>\$ 13,545,164</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 94,724
Special	56,304
Vocational	60,718
<u>Support services:</u>	
Instructional staff	62,149
Administration	60,879
Fiscal	56,017
Operations and maintenance	93,372
Pupil transportation	93,785
Food service operations	14,182
Extracurricular	<u>65,774</u>
Total depreciation expense	<u>\$ 657,904</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2009, the following changes occurred in governmental activities long term obligations:

	Balance Outstanding 06/30/08	Additions	Reductions	Balance Outstanding 06/30/09	Amounts Due in One Year
Governmental activities:					
Refunding bonds - Series 2005					
Current interest bonds	\$ 6,845,000	\$ -	\$ (420,000)	\$ 6,425,000	\$ 470,000
Capital appreciation bonds	255,000	-	-	255,000	-
Accreted interest	88,675	40,399	-	129,074	-
Energy conservation loan - 2000	161,963	-	(78,687)	83,276	83,276
Energy conservation loan - 2008	767,000	-	(71,695)	695,305	73,680
Total long-term bonds and loans	<u>8,117,638</u>	<u>40,399</u>	<u>(570,382)</u>	<u>7,587,655</u>	<u>626,956</u>
Capital leases	149,553	46,385	(100,928)	95,010	59,647
Compensated absences	<u>1,307,171</u>	<u>444,110</u>	<u>(150,121)</u>	<u>1,601,160</u>	<u>172,966</u>
Total long-term obligations	<u>\$ 9,574,362</u>	<u>\$ 530,894</u>	<u>\$ (821,431)</u>	<u>\$ 9,283,825</u>	<u>\$ 859,569</u>

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

Capital Lease Obligations: The capital lease obligations will be paid from the general fund. See Note 10 for details.

General Obligation Bonds Payable - Series 2005: In February 2005, the District issued \$8,315,000 in general obligation bonds for refunding of the 1994 general obligation bonds. This refunding was undertaken to take advantage of lower interest rates. The bonds were issued for a fourteen-year period with final maturity at December 1, 2019, with an interest rate of 2.5% to 9.7%. The refunding issue is comprised of both current interest bonds, par value \$8,060,000, and capital appreciation bonds par value \$255,000. The interest rates on the current interest bonds range from 2.50% - 5.00%. The capital appreciation bonds mature on December 1, 2014 (approximate initial offering yield to maturity of 3.80%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2014 is \$590,000. Total accreted interest of \$129,074 has been included on the statement of net assets at June 30, 2009.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Fiscal Year Year Ending June 30,	Current Interest			Capital Appreciation		
	Refunding Bonds - Series 2005			Refunding Bonds - Series 2005		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 470,000	\$ 244,608	\$ 714,608	\$ -	\$ -	\$ -
2011	485,000	228,445	713,445	-	-	-
2012	510,000	211,095	721,095	-	-	-
2013	570,000	194,610	764,610	-	-	-
2014	-	185,775	185,775	255,000	335,000	590,000
2015 - 2019	3,510,000	617,512	4,127,512	-	-	-
2020	880,000	19,800	899,800	-	-	-
Total	\$ 6,425,000	\$ 1,701,845	\$ 8,126,845	\$ 255,000	\$ 335,000	\$ 590,000

Fiscal Year Year Ending June 30,	Energy Conservation Loans		
	Principal	Interest	Total
2010	\$ 156,956	\$ 22,228	\$ 179,184
2011	75,720	16,579	92,299
2012	77,779	14,521	92,300
2013	79,971	12,329	92,300
2014	82,185	10,115	92,300
2015 - 2018	305,970	17,079	323,049
Total	\$ 778,581	\$ 92,851	\$ 871,432

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - 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, 2009, are a voted debt margin of \$44,235,494 (including available funds of \$2,591,845) and an unvoted debt margin of \$536,929.

NOTE 10 - CAPITAL LEASES

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

Capital assets consisting of equipment have been capitalized in the amount of \$501,385. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2009 totaled \$100,928 by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2009.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 63,841
2011	11,286
2012	11,286
2013	11,286
2014	<u>6,991</u>
Total minimum lease payments	104,690
Less: amount representing interest	<u>(9,680)</u>
Total	<u><u>\$ 95,010</u></u>

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the District's insurance coverage was as follows:

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2008.

B. Health Care Self-Insurance Program

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District pays a monthly premium to Benefit Services, a third party administrator, who in turn pays the claims for the District. The claims liability of \$463,816 reported in the internal service fund at June 30, 2009 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Change in claims activity for the past two fiscal years is as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2009	\$ 471,777	\$ 3,387,991	\$ (3,395,952)	\$ 463,816
2008	605,715	2,745,341	(2,879,279)	471,777

C. Workers' Compensation Group Rating Plan

For fiscal year 2009, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See 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. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

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 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$361,877, \$353,696 and \$398,132, respectively; 50.48 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 12 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2009, 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, 2009, 2008 and 2007 were \$2,284,894, \$2,304,974 and \$2,152,983, respectively; 81.69 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$25,717 made by the District and \$49,154 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, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$223,276, \$218,403 and \$151,687, respectively; 50.48 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$29,858, \$25,485 and \$29,077, respectively; 50.48 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, 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, 2009, 2008, and 2007 were \$175,761, \$177,306 and \$165,614, respectively; 81.69 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 14 - EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

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

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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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	\$ (3,033,184)
Net adjustment for revenue accruals	1,836,597
Net adjustment for expenditure accruals	(455,644)
Net adjustment for other financing sources and uses	35,574
Adjustment for encumbrances	<u>756,218</u>
GAAP basis	<u>\$ (860,439)</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional 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. During the fiscal year ended June 30, 2009, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2008	\$ 83,455	\$ (1,396,200)
Current year set-aside requirement	627,618	627,618
Current year offset	-	(839,319)
Qualifying disbursements	<u>(393,992)</u>	<u>(11,248)</u>
Total	<u>\$ 317,081</u>	<u>\$ (1,619,149)</u>
Balance carried forward to fiscal year 2010	<u>\$ 317,081</u>	<u>\$ (1,396,200)</u>

The District issued \$629,200 and \$767,000 in energy conservation loans during fiscal year 2000 and fiscal year 2008, respectively. These proceeds may be used to reduce the capital acquisition reserve for future years until the loans are retired by the District. The negative amount is therefore presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2009 follows:

Amount restricted for textbooks/instructional materials	\$ 317,081
Amount restricted for school bus purchases	<u>33,152</u>
Total restricted assets	<u>\$ 350,233</u>

SUPPLEMENTARY DATA

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Nutrition Grant Cluster:				
(D) (E) School Breakfast Program	10.553	2009	\$ 112,579	\$ 112,579
Total School Breakfast Program			<u>112,579</u>	<u>112,579</u>
(D) (E) National School Lunch Program	10.555	2009	497,717	497,717
(C) (D) National School Lunch Program - Food Donation	10.555	N/A	70,456	70,456
Total National School Lunch Program			<u>568,173</u>	<u>568,173</u>
(D) (E) Special Milk Program for Children	10.556	2009	6,587	6,587
Total Special Milk Program for Children			<u>6,587</u>	<u>6,587</u>
(D) (E) Summer Food Service Program for Children	10.559	2008	31,551	31,551
(D) (E) Summer Food Service Program for Children	10.559	2009	4,300	4,300
Total Summer Food Service Program for Children			<u>35,851</u>	<u>35,851</u>
Total U.S. Department of Agriculture and Nutrition Grant Cluster			<u>723,190</u>	<u>723,190</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
(G) Title I Grants to Local Educational Agencies	84.010	2008	101,284	91,046
(G) Title I Grants to Local Educational Agencies	84.010	2009	658,875	654,866
Total Title I Grants to Local Educational Agencies			<u>760,159</u>	<u>745,912</u>
Special Education Cluster:				
(F) (G) Special Education_Grants to States	84.027	2008	527,870	57,967
(F) (G) Special Education_Grants to States	84.027	2009	1,039,157	994,384
Total Special Education_Grants to States			<u>1,567,027</u>	<u>1,052,351</u>
(F) Special Education_Preschool Grants	84.173	2008	4,328	151
(F) Special Education_Preschool Grants	84.173	2009	29,082	28,867
Total Special Education_Preschool Grants			<u>33,410</u>	<u>29,018</u>
Total Special Education Cluster			<u>1,600,437</u>	<u>1,081,369</u>
Safe and Drug-Free Schools and Communities_State Grants	84.186	2008	400	-
Safe and Drug-Free Schools and Communities_State Grants	84.186	2009	15,420	15,242
Total Safe and Drug-Free Schools and Communities_State Grants			<u>15,820</u>	<u>15,242</u>
(G) State Grants for Innovative Programs	84.298	2008	(923)	-
(G) State Grants for Innovative Programs	84.298	2009	8,555	6,971
Total State Grants for Innovative Programs			<u>7,632</u>	<u>6,971</u>
(G) Education Technology State Grants	84.318	2008	4,376	-
(G) Education Technology State Grants	84.318	2009	7,931	6,923
Total Education Technology State Grants			<u>12,307</u>	<u>6,923</u>
(G) Improving Teacher Quality State Grants	84.367	2008	(2,000)	12,069
(G) Improving Teacher Quality State Grants	84.367	2009	244,460	235,202
Total Improving Teach Quality State Grants			<u>242,460</u>	<u>247,271</u>
Total U.S. Department of Education			<u>2,638,815</u>	<u>2,103,688</u>
U. S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF PUBLIC SAFETY				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	6,660	6,660
Total U.S. Department of Homeland Security			<u>6,660</u>	<u>6,660</u>
Total Federal Financial Assistance			<u>\$ 3,368,665</u>	<u>\$ 2,833,538</u>

-Continued

**MOUNT VERNON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

- (A) OAKS did not assign pass-through numbers for fiscal year 2009.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Special Education Grant Cluster" in determining major programs.
- (G) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2009, the ODE authorized the following transfers:

Program Title	CFDA	Grant Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2008	\$ 2,109	
Title I Grants to Local Educational Agencies	84.010	2009		\$ 2,109
Special Education_Grants to States	84.027	2008	152,297	
Special Education_Grants to States	84.027	2009		152,297
State Grants for Innovative Programs	84.298	2008	923	
State Grants for Innovative Programs	84.298	2009		923
Education Technology State Grants	84.318	2008	982	
Education Technology State Grants	84.318	2009		982
Improving Teacher Quality State Grants	84.367	2008	2,000	
Improving Teacher Quality State Grants	84.367	2009		2,000
Totals			<u>\$ 158,311</u>	<u>\$ 158,311</u>



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Accounting Standards***

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Vernon City School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2009, which collectively comprise Mount Vernon City School District's basic financial statements and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mount Vernon City School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mount Vernon City School District's financial statements that is more than inconsequential will not be prevented or detected by Mount Vernon City School District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2009-MVCSD-001 to be a significant deficiency in internal control over financial reporting.

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

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

Board of Education
Mount Vernon City School District

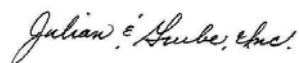
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Vernon City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2009-MVCS-002 and 2009-MVCS-003.

We noted certain matters that we reported to management of Mount Vernon City School District in a separate letter dated December 7, 2009.

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

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



Julian & Grube, Inc.
December 7, 2009



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

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

Compliance

We have audited the compliance of Mount Vernon City School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. Mount Vernon City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mount Vernon City School District's management. Our responsibility is to express an opinion on Mount Vernon City School District's compliance based on our audit.

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

In our opinion, Mount Vernon City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal Control Over Compliance

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

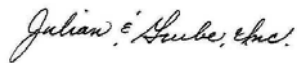
Board of Education
Mount Vernon City School District

A control deficiency in Mount Vernon City School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mount Vernon City School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Mount Vernon City School District's internal control.

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

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

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



Julian & Grube, Inc.
December 7, 2009

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Nutrition Grant Cluster: School Breakfast Program - CFDA #10.553; National School Lunch Program - CFDA #10.555; Special Milk Program for Children - CFDA #10.556; and Summer Food Service Program for Children - CFDA #10.559; and Title I Grants to Local Educational Agencies - CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2009-MVCSD-001

Significant Deficiency

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

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

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

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

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

Client Response: The District is in the process of selecting a company to perform an appraisal of the District's asset inventory.

Finding Number	2009-MVCSD-002
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Ohio Revised Code Section 5705.36 requires, in part, subdivisions to certify to the County Auditor the amount available from all sources for expenditures from each fund along with any balances which existed at the end of the preceding year on or about the first day of each fiscal year.

The District did not certify the proper unencumbered fund balances at July 1, 2008.

By not certifying accurate unencumbered balances, the District does not have proper estimated resources in which to appropriate against, which could cause appropriations to exceed estimated resources.

We recommend the District properly certify the correct fund balances. This will enable the County Auditor to perform the proper certification with accurate information. This will in turn allow the District to properly appropriate funds within available resources.

Client Response: In the future, the District will ensure proper fund balances are submitted to the County Auditor for certification.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2009-MVCSD-003

Ohio Revised Code Section 5705.36 (A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At June 30, 2009, the District had appropriations greater than actual resources, in the following funds:

<u>Nonmajor Governmental Funds:</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Food Service	\$ 1,477,373	\$ 1,549,962	\$ 72,589
Title VI-B	1,124,709	1,594,612	469,903
Title I	754,327	763,288	8,961
Drug Free School Grant	15,420	15,820	400
IDEA Preschool Grant	29,368	33,680	4,312
Miscellaneous Federal Grant	7,932	12,308	4,376

By appropriating more funds than actual resources, the District is at risk of spending more money than is available; this may result in negative fund balances.

We recommend the District monitor appropriations in comparison to actual resources and obtain decreased amended appropriations as needed. Further guidance may be found in Auditor of State Bulletin 97-010.

Client Response: By certifying proper fund balances, this will allow the District to properly appropriate funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008- 001	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	Yes	N/A
2008- 002	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend monies unless it has been properly appropriated.	Yes	N/A
2008- 003	SAS 112 significant deficiency over properly recording financial transactions.	Yes	N/A
2008- 004	SAS 112 significant deficiency due to the District being unable to provide a comprehensive detailed listing of capital assets in an easily auditable format.	No	Repeated as finding 2009-MVCSD-001



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Independent Accountant's Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Revised 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 Ohio 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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Mount Vernon City School District has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on December 7, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;

Independent Accountant's Report on Applying Agreed-Upon Procedures
Mount Vernon City School District
Page Two

- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Ohio Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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 of Mount Vernon City School District and is not intended to be and should not be used by anyone other than this specified party.



Mary Taylor, CPA
Auditor of State

MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 9, 2010