

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
JUNE 30, 2018**

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**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, Ohio, as of June 30, 2018, and the respective changes in cash financial position and the budgetary comparison for the General thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to management's discussion & analysis, as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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Keith Faber
Auditor of State

Columbus, Ohio

March 4, 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

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 cash basis financial activities for the fiscal year ended June 30, 2018. 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 2018 are as follows:

- In total, net cash position of governmental activities decreased \$159,861, which represents a 1.76% decrease from fiscal year 2017.
- General cash receipts accounted for \$37,175,686 in cash receipts or 81.68% of total cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for \$8,337,640 in cash receipts or 18.32% of total cash receipts of \$45,513,326.
- The District had \$45,673,187 in cash disbursements related to governmental activities; \$8,337,640 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$37,175,686 were not adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$39,764,710 in cash receipts and other financing sources and \$39,929,337 in cash disbursements. During fiscal year 2018, the general fund's fund cash balance decreased \$164,627 from \$5,356,637 to \$5,192,010.

Using the Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

The statement of net position – cash basis and statement of activities – cash basis provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis 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 is the only major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position – cash basis and the statement of activities – cash basis answers the question, “How did the District do financially during fiscal year 2018?” These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year’s receipts and disbursements if the cash is actually received or paid.

These two statements report the District’s net cash position and changes in net cash position on a cash basis. This change in net cash position is important because it tells the reader that, for the District as a whole, the cash basis 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.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services and not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position – cash basis and statement of activities – cash basis, 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 position – cash basis and statement of activities – cash basis can be found on pages 17-18 of this report.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major governmental fund is on page 12. 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’ most significant funds. The District’s major governmental funds is the general 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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District’s operations and the basic services it provides. Governmental fund information helps to determine whether there are more of fewer cash basis financial resources that can be readily spent to finance various District programs. The relationship (or differences) between governmental activities (reported in the statement of net position – cash basis and statement of activities – cash basis) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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 24-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position – cash basis and changes in fiduciary net position – cash basis on pages 26-27. 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 29-64 of this report.

The District as a Whole

The table below provides a summary of the District's net cash position at June 30, 2018 and June 30, 2017.

	Net Cash Position	
	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets	\$ 8,907,275	\$ 9,067,136
<u>Net Cash Position</u>		
Restricted	814,965	1,851,307
Unrestricted	<u>8,092,310</u>	<u>7,215,829</u>
Total net cash position	<u>\$ 8,907,275</u>	<u>\$ 9,067,136</u>

Total net cash position of the District decreased \$159,861, which represents a 1.76% decrease from net cash position at June 30, 2017. A portion of the District's net cash position, \$814,965, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$8,092,310 may be used to meet the District's ongoing obligations to its students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The table below shows the change in net cash position for fiscal years 2018 and 2017.

	Change in Net Cash Position	
	Governmental	Governmental
	Activities	Activities
	<u>2018</u>	<u>2017</u>
<u>Cash receipts:</u>		
Program cash receipts:		
Charges for services and sales	\$ 2,437,316	\$ 2,222,216
Operating grants and contributions	5,900,324	5,702,575
General cash receipts:		
Property taxes	18,029,336	17,488,064
Payments in lieu of taxes	371,421	409,323
Grants and entitlements	18,438,681	17,960,344
Earnings on investments	103,989	64,207
Miscellaneous	<u>232,259</u>	<u>304,256</u>
Total cash receipts	<u>45,513,326</u>	<u>44,150,985</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

	<u>Governmental Activities 2018</u>	<u>Governmental Activities 2017</u>
<u>Cash disbursements:</u>		
Current:		
Instruction:		
Regular	\$ 21,033,995	\$ 20,700,401
Special	5,111,175	5,142,946
Vocational	498,416	485,087
Support services:		
Pupil	2,616,397	2,591,835
Instructional staff	1,381,958	1,295,887
Board of education	90,965	113,249
Administration	4,618,598	4,397,916
Fiscal	798,547	861,782
Business	150,641	152,680
Operations and maintenance	3,110,539	3,109,526
Pupil transportation	1,523,847	1,581,651
Central	279,547	229,561
Operation of non-instructional services:		
Other non-instructional services	232,238	207,328
Food service operations	1,526,990	1,502,395
Extracurricular activities	872,648	739,064
Facilities acquisition and construction	1,017,906	107,588
Debt service:		
Principal retirement	775,522	794,202
Interest and fiscal charges	33,258	47,901
Total cash disbursements	<u>45,673,187</u>	<u>44,060,999</u>
Change in net cash position	(159,861)	89,986
Net cash position at beginning of year	<u>9,067,136</u>	<u>8,977,150</u>
Net cash position at end of year	<u>\$ 8,907,275</u>	<u>\$ 9,067,136</u>

Governmental Activities

Net cash position of the District's governmental activities decreased \$159,861. Total governmental cash disbursements of \$45,673,187 were offset by program cash receipts of \$8,337,640 and general cash receipts of \$37,175,686. Program cash receipts supported 18.25% of the total governmental cash disbursements.

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

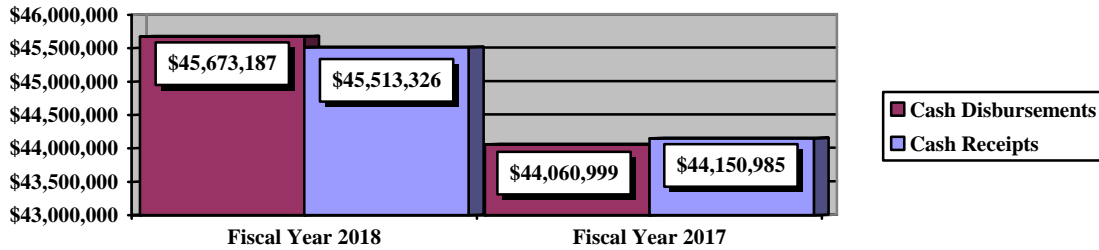
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The primary sources of cash receipts for governmental activities are derived from property taxes and unrestricted grants and entitlements. These cash receipt sources represent 80.13% of total governmental cash receipts. The increase in cash receipts related to property taxes is mainly attributable to increased assessed values. The increase in unrestricted grants and entitlements was due to increased funding from the State of Ohio in the form of Foundation payments. Earnings on investments increased due to increasing interest rates and an improved market. Overall cash receipts increased from the prior fiscal year.

The largest cash disbursement category of the District is for instructional programs. Instruction cash disbursements totaled \$26,643,586 or 58.34% of total governmental cash disbursements for fiscal year 2018. Facilities acquisition and construction increased due to the District replacing the HVAC system at the High School. Overall cash disbursements increased from the prior fiscal year.

The graph below presents the District's governmental activities cash receipts and cash disbursements for fiscal years 2018 and 2017.

Governmental Activities - Cash Receipts and Cash Disbursements



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

The statement of activities – cash basis 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 2018 and 2017. That is, it identifies the cost of these services supported by tax receipts, unrestricted State grants and entitlements, and other general cash receipts.

	Governmental Activities			
	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Cash disbursements:				
Instruction:				
Regular	\$ 21,033,995	\$ 18,984,525	\$ 20,700,401	\$ 18,742,002
Special	5,111,175	1,152,552	5,142,946	1,666,563
Vocational	498,416	438,275	485,087	428,175
Support services:				
Pupil	2,616,397	2,283,320	2,591,835	2,291,950
Instructional staff	1,381,958	1,302,380	1,295,887	1,157,287
Board of education	90,965	90,965	113,249	113,249
Administration	4,618,598	4,577,022	4,397,916	4,356,827
Fiscal	798,547	798,547	861,782	861,782
Business	150,641	150,641	152,680	152,680
Operations and maintenance	3,110,539	3,099,681	3,109,526	3,033,271
Pupil transportation	1,523,847	1,434,232	1,581,651	1,496,643
Central	279,547	264,128	229,561	215,161
Operation of non-instructional services:				
Other non-instructional services	232,238	50,092	207,328	31,471
Food service operations	1,526,990	187,113	1,502,395	98,368
Extracurricular activities	872,648	695,388	739,064	541,088
Facilities acquisition and construction	1,017,906	1,017,906	107,588	107,588
Debt service:				
Principal retirement	775,522	775,522	794,202	794,202
Interest and fiscal charges	33,258	33,258	47,901	47,901
Total	<u>\$ 45,673,187</u>	<u>\$ 37,335,547</u>	<u>\$ 44,060,999</u>	<u>\$ 36,136,208</u>

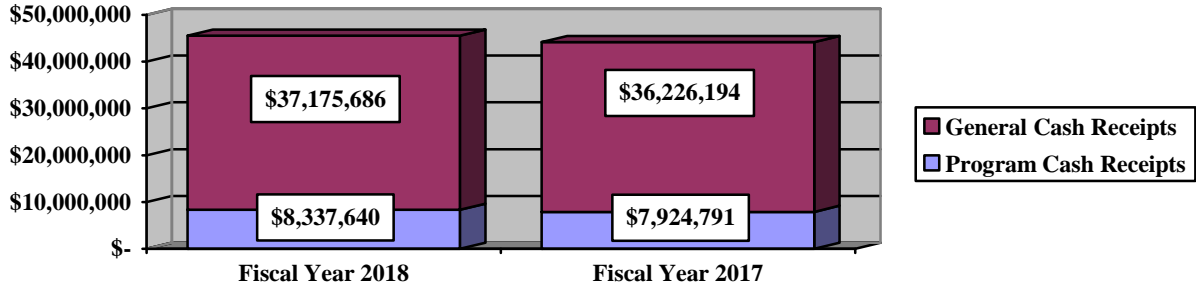
The dependence upon taxes and other general cash receipts for governmental activities is apparent, as 77.22% of instructional activities are supported through taxes and other general cash receipts. For all governmental activities, general cash receipt support is 81.75%. The District's taxpayers and unrestricted grants and entitlements are by far the primary support for the District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The graph below presents the District's governmental activities cash receipts for fiscal years 2018 and 2017.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$5,753,813, which is less than last year's total fund cash balance of \$6,870,047. The table below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2018 and June 30, 2017.

	Fund Cash Balance <u>June 30, 2018</u>	Fund Cash Balance <u>June 30, 2017</u>	Increase/ (Decrease)	Percentage Change
General	\$ 5,192,010	\$ 5,356,637	\$ (164,627)	(3.07) %
Nonmajor governmental	<u>561,803</u>	<u>1,513,410</u>	<u>(951,607)</u>	(62.88) %
Total	<u>\$ 5,753,813</u>	<u>\$ 6,870,047</u>	<u>\$ (1,116,234)</u>	(16.25) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

General Fund

The District's general fund cash balance decreased \$164,627.

The table that follows assists in illustrating the financial activities and fund cash balance of the general fund for fiscal years 2018 and 2017.

	2018 <u>Amount</u>	2017 <u>Amount</u>	Increase/ (Decrease)	Percentage Change
<u>Cash receipts</u>				
Taxes	\$ 16,573,246	\$ 16,209,403	\$ 363,843	2.24 %
Tuition and transportation fees	1,768,302	1,563,952	204,350	13.07 %
Earnings on investments	69,771	47,943	21,828	45.53 %
Intergovernmental	20,371,665	19,761,982	609,683	3.09 %
Payments in lieu of taxes	371,421	409,323	(37,902)	(9.26) %
Other receipts	<u>410,305</u>	<u>471,664</u>	<u>(61,359)</u>	(13.01) %
Total	<u>\$ 39,564,710</u>	<u>\$ 38,464,267</u>	<u>\$ 1,100,443</u>	2.86 %
<u>Cash disbursements</u>				
Instruction	\$ 25,125,388	\$ 24,390,557	\$ 734,831	3.01 %
Support services	14,072,569	13,618,083	454,486	3.34 %
Extracurricular activities	675,299	578,365	96,934	16.76 %
Facilities acquisition and construction	10,020	14,880	(4,860)	(32.66) %
Debt service	<u>46,061</u>	<u>-</u>	<u>46,061</u>	- %
Total	<u>\$ 39,929,337</u>	<u>\$ 38,601,885</u>	<u>\$ 1,327,452</u>	3.44 %

Overall cash receipts of the general fund increased \$1,100,443 or 2.86% during fiscal year 2018. Tax receipts increased \$363,843 or 2.24% primarily due to increased assessment values. The increase in intergovernmental receipts was primarily due to increased funding from the State of Ohio in the form of Foundation payments. Intergovernmental receipts increased \$609,683 or 3.09% from fiscal year 2017. Earnings on investments increased as the financial markets continued to improve, and interest rates rose. Tuition and transportation fees increased due to increased open enrollment. Other receipts decreased due to reimbursing pay to play fees.

Overall cash disbursements of the general fund increased \$1,327,452 or 3.44% during fiscal year 2018. The increases in both instruction and support services disbursements is primarily attributable to increased wages. Extracurricular activities increased due to increased participation. Debt service increased as the District made the debt service payments for the Energy Conservation Loan from the fund benefitting from the energy savings. All other cash disbursement classifications remained comparable to the prior fiscal year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
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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.

For the general fund, final budgetary basis receipts and other financing sources of \$38,537,632 matched exactly to original budget estimates. The actual budgetary basis receipts and other financing sources of \$39,708,043 were greater than final budget estimates by \$1,170,411. The final budgetary basis disbursements and other financing uses of \$40,023,230 were \$500,000 greater than original budget estimates. The actual budgetary basis disbursements and other financing uses of \$39,908,009 were \$115,221 less than final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements. The District had facilities acquisition and construction cash disbursements of \$1,017,906 during fiscal year 2018.

Debt Administration

At June 30, 2018, the District had \$1,625,000 in series 2014 current interest bonds and the energy conservation loans matured in fiscal year 2018. Of this total, \$800,000 is due within one year and \$825,000 is due in more than one year. The following table summarizes the debt outstanding.

	Outstanding Debt, Fiscal Year End	
	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
Refunding bonds - series 2014		
Current interest bonds	\$ 1,625,000	\$ 2,355,000
Energy conservation loan - 2008	<u>-</u>	<u>45,522</u>
Total	<u>\$ 1,625,000</u>	<u>\$ 2,400,522</u>

At June 30, 2018, the District's overall legal debt margin was \$53,940,932, with an unvoted debt margin of \$612,916. See Note 8 to the basic financial statements for detail on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

Current Financial Related Activities

It has been 5 years since the district passed the \$3 million Emergency Levy in May 2013. We have watched our spending carefully and have been happy to say that our state funding has increased every year since then as well. Still, costs of materials and staff continue to increase, so our ending balances are stable and beginning to decrease. As the October 2018 Five Year Financial Forecast is created and approved by the Board of Education, discussions of requesting new funding from the voters will need to take place.

The Board will be considering the next moves when it comes to renewal of the two existing levies. Some decisions may be made in early 2019 as a levy in May would have to be approved by the Board by February sometime.

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 Mrs. Judy Forney, Treasurer/CFO, Mount Vernon City School District, 300 Newark Road, Mount Vernon, Ohio 43050.

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

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2018

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 8,907,275
Total assets.	<u>8,907,275</u>
 Net cash position:	
Restricted for:	
Capital projects	246,695
Debt service.	403,474
Locally funded programs	16,646
State funded programs.	50,538
Student activities	97,612
Unrestricted	8,092,310
Total net cash position	<u>\$ 8,907,275</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 21,033,995	\$ 1,835,943	\$ 213,527	\$ (18,984,525)
Special	5,111,175	70,638	3,887,985	(1,152,552)
Vocational	498,416	-	60,141	(438,275)
Support services:				
Pupil.	2,616,397	39,688	293,389	(2,283,320)
Instructional staff	1,381,958	-	79,578	(1,302,380)
Board of education	90,965	-	-	(90,965)
Administration.	4,618,598	182	41,394	(4,577,022)
Fiscal.	798,547	-	-	(798,547)
Business.	150,641	-	-	(150,641)
Operations and maintenance	3,110,539	9,324	1,534	(3,099,681)
Pupil transportation.	1,523,847	9,310	80,305	(1,434,232)
Central	279,547	-	15,419	(264,128)
Operation of non-instructional services:				
Other non-instructional services	232,238	-	182,146	(50,092)
Food service operations	1,526,990	296,998	1,042,879	(187,113)
Extracurricular activities.	872,648	175,233	2,027	(695,388)
Facilities acquisition and construction.	1,017,906	-	-	(1,017,906)
Debt service:				
Principal retirement	775,522	-	-	(775,522)
Interest and fiscal charges	33,258	-	-	(33,258)
Totals	\$ 45,673,187	\$ 2,437,316	\$ 5,900,324	(37,335,547)

General cash receipts:

Property taxes levied for:	
General purposes	16,573,246
Debt service.	570,743
Capital projects	885,347
Payments in lieu of taxes.	371,421
Grants and entitlements not restricted to specific programs	18,438,681
Earnings on investments.	103,989
Miscellaneous	232,259
Total general cash receipts	37,175,686
Change in net cash position.	(159,861)
Net cash position at beginning of year.	9,067,136
Net cash position at end of year	\$ 8,907,275

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 5,192,010	\$ 561,803	\$ 5,753,813
Total assets	\$ 5,192,010	\$ 561,803	\$ 5,753,813
 Fund cash balances:			
Restricted:			
Debt service	\$ -	\$ 403,474	\$ 403,474
Capital improvements	-	246,695	246,695
Non-public schools	-	50,538	50,538
Extracurricular.	-	97,612	97,612
Other purposes.	-	16,646	16,646
Committed:			
Other purposes.	-	5,257	5,257
Assigned:			
Student instruction	2,015	-	2,015
Student and staff support.	119,309	-	119,309
Pay to participate fees	50	-	50
Unassigned (deficit)	5,070,636	(258,419)	4,812,217
Total fund cash balances.	\$ 5,192,010	\$ 561,803	\$ 5,753,813

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES - CASH BASIS
JUNE 30, 2018

Total governmental fund cash balances	\$ 5,753,813
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Amounts reported for governmental activities on the statement of net position - cash basis are different because:

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position - cash basis.

3,153,462

Net position - cash basis of governmental activities

\$ 8,907,275

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 16,573,246	\$ 1,456,090	\$ 18,029,336
Tuition	1,759,015	-	1,759,015
Transportation fees	9,287	-	9,287
Earnings on investments	69,771	3,829	73,600
Charges for services	-	296,998	296,998
Extracurricular	40,978	193,970	234,948
Classroom materials and fees	127,744	-	127,744
Rental income	9,324	-	9,324
Contributions and donations	136,387	41,942	178,329
Other local receipts	95,872	220	96,092
Payment in lieu of taxes	371,421	-	371,421
Intergovernmental - state	20,090,519	1,417,662	21,508,181
Intergovernmental - federal	281,146	2,506,663	2,787,809
Total cash receipts	<u>39,564,710</u>	<u>5,917,374</u>	<u>45,482,084</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	21,116,430	352,210	21,468,640
Special	3,500,999	1,749,845	5,250,844
Vocational	507,959	-	507,959
Support services:			
Pupil	2,381,846	294,489	2,676,335
Instructional staff	1,238,998	185,724	1,424,722
Board of education	90,965	-	90,965
Administration	4,639,596	40,147	4,679,743
Fiscal	779,023	29,629	808,652
Business	153,821	-	153,821
Operations and maintenance	3,122,779	53,498	3,176,277
Pupil transportation	1,415,855	159,036	1,574,891
Central	249,686	29,861	279,547
Operation of non-instructional services:			
Other non-instructional services	-	232,238	232,238
Food service operations	-	1,574,350	1,574,350
Extracurricular activities	675,299	197,349	872,648
Facilities acquisition and construction	10,020	1,007,886	1,017,906
Debt service:			
Principal retirement	45,522	730,000	775,522
Interest and fiscal charges	539	32,719	33,258
Total cash disbursements	<u>39,929,337</u>	<u>6,668,981</u>	<u>46,598,318</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>(364,627)</u>	<u>(751,607)</u>	<u>(1,116,234)</u>
Other financing sources (uses):			
Advances in	200,000	-	200,000
Advances (out)	-	(200,000)	(200,000)
Total other financing sources (uses)	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund cash balances	(164,627)	(951,607)	(1,116,234)
Fund cash balances at beginning of year . .	<u>5,356,637</u>	<u>1,513,410</u>	<u>6,870,047</u>
Fund cash balances at end of year	<u>\$ 5,192,010</u>	<u>\$ 561,803</u>	<u>\$ 5,753,813</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - cash basis - total governmental funds \$ (1,116,234)

*Amounts reported for governmental activities in the
statement of activities - cash basis are different because:*

An internal service fund for self-insurance is not reported in the district-wide statement of activities - cash basis. Governmental fund cash disbursements and the related internal service fund cash receipts are eliminated. The net cash receipts (cash disbursements) of the internal service fund are allocated among the governmental activities.

956,373

Change in net cash position of governmental activities \$ (159,861)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 16,209,402	\$ 16,209,402	\$ 16,573,246	\$ 363,844
Tuition.	1,554,680	1,554,680	1,759,015	204,335
Transportation fees.	9,271	9,271	9,287	16
Earnings on investments	47,943	47,943	69,771	21,828
Extracurricular.	3,268	3,268	3,471	203
Classroom materials and fees	119,684	119,684	127,744	8,060
Rental income	3,128	3,128	9,324	6,196
Contributions and donations	5,585	5,585	273	(5,312)
Other local receipts	155,685	155,685	83,784	(71,901)
Payments in lieu of taxes	409,323	409,323	371,421	(37,902)
Intergovernmental - state	19,545,776	19,545,776	20,090,518	544,742
Intergovernmental - federal	216,206	216,206	281,146	64,940
Total budgetary basis receipts.	<u>38,279,951</u>	<u>38,279,951</u>	<u>39,379,000</u>	<u>1,099,049</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	20,340,637	20,604,419	21,053,943	(449,524)
Special.	3,385,604	3,429,509	3,504,330	(74,821)
Vocational.	491,269	497,640	508,497	(10,857)
Support services:				
Pupil.	2,227,532	2,256,419	2,305,647	(49,228)
Instructional staff	1,213,206	1,228,939	1,255,751	(26,812)
Board of education	87,883	89,023	90,965	(1,942)
Administration.	4,487,113	4,545,303	4,644,467	(99,164)
Fiscal	754,794	764,582	781,263	(16,681)
Business	148,963	150,895	154,187	(3,292)
Operations and maintenance.	3,096,967	3,137,129	3,205,571	(68,442)
Pupil transportation	1,373,168	1,390,975	1,421,322	(30,347)
Central.	241,227	244,355	249,686	(5,331)
Extracurricular activities.	653,386	661,859	676,299	(14,440)
Facilities acquisition and construction	9,681	9,806	10,020	(214)
Debt service:				
Principal	43,915	44,484	45,455	(971)
Interest and fiscal charges.	585	593	606	(13)
Total budgetary basis disbursements.	<u>38,555,930</u>	<u>39,055,930</u>	<u>39,908,009</u>	<u>(852,079)</u>
Excess (deficiency) of budgetary basis receipts over (under) budgetary basis disbursements. .	<u>(275,979)</u>	<u>(775,979)</u>	<u>(529,009)</u>	<u>246,970</u>
Other financing sources (uses):				
Refund of prior year's expenditures	257,681	257,681	129,043	(128,638)
Transfers (out).	(92,300)	(92,300)	-	92,300
Advances in.	-	-	200,000	200,000
Advances (out)	(875,000)	(875,000)	-	875,000
Total other financing sources (uses)	<u>(709,619)</u>	<u>(709,619)</u>	<u>329,043</u>	<u>1,038,662</u>
Net change in fund cash balance	(985,598)	(1,485,598)	(199,966)	1,285,632
Fund cash balance at beginning of year . .	5,250,045	5,250,045	5,250,045	-
Prior year encumbrances appropriated . .	20,607	20,607	20,607	-
Fund cash balance at end of year	<u>\$ 4,285,054</u>	<u>\$ 3,785,054</u>	<u>\$ 5,070,686</u>	<u>\$ 1,285,632</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2018

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,153,462
Total assets.	<u>3,153,462</u>
Net cash position:	
Unrestricted.	3,153,462
Total net cash position	<u>\$ 3,153,462</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
Operating cash receipts:	
Charges for services	\$ 5,976,722
Total operating cash receipts	<u>5,976,722</u>
Operating cash disbursements:	
Fringe benefits.	643,066
Claims.	4,407,567
Materials and supplies	958
Total operating cash disbursements	<u>5,051,591</u>
Operating income	<u>925,131</u>
Nonoperating cash receipts:	
Earnings on investments	<u>31,242</u>
Total nonoperating cash receipts.	<u>31,242</u>
Change in net cash position	956,373
Net cash position at beginning of year.	<u>2,197,089</u>
Net cash position at end of year	<u>\$ 3,153,462</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2018

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,868	\$ 60,540
Total assets.	\$ 2,868	\$ 60,540
Net cash position:		
Held in trust for scholarships	\$ 2,868	\$ -
Held on behalf of student activities.	-	60,540
Total net cash position	\$ 2,868	\$ 60,540

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	30
Total additions.		30
Change in net cash position.		30
Net cash position at beginning of year. . .		2,838
Net cash position at end of year	\$	2,868

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, 2018**

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 staffed by 124 non-certified employees and 274 certified full-time teaching personnel who provide services to 3,638 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. Following are the more significant of the District’s accounting policies.

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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. 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 government’s 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, 2018**

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 and Christian Star Academy Elementary is operated as a private school. 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 18 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 (LAN) support, library automation, and Education Management Information System (EMIS) reporting to the Ohio Department of Education. The District paid LACA \$174,368 for services in fiscal year 2018. Financial information can be obtained from Chad Carson, who serves as Executive Director, at 150 South Quentin Road, 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 of Education, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Knox County Career Center, Tracy Elliott, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in the SchoolComp Group Retrospective Rating Program (Group Retro). Group Retro is an alternate rating program allowed by the Ohio Bureau of Workers' Compensation and offered through SchoolComp. The SchoolComp Group Retro Program is administered by CompManagement. The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount with refunds at the end of predetermined evaluation periods. See Note 9 for more information on Group Retro.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable resources are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to disbursements for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) financial resources that are restricted to the payment of long-term debt principal, interest and related costs, and (c) specific receipt sources that are restricted or committed to a disbursement for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. Proprietary funds are classified as either 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 cash position and changes in net cash position. 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 cash 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 and do not involve measurement of results of operations. The District's only trust fund is a private-purpose trust fund that accounts for scholarship programs for students. The District's agency fund accounts for student activities.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net position 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 receipts and disbursements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges 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. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

All assets and net cash position associated with the operation of the District are included on the statement of net position.

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.

D. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in this financial statement.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraphs.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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 appropriation 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 is at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of disbursements, the District has elected to present the budgetary statement comparison at the fund and function level of disbursements. 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 the Knox County Budget Commission for rate determination.

Estimated Resources:

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

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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 cover 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 of Education during the fiscal year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts back 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 re-appropriated.

F. Cash and Investments

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

During fiscal year 2018, investments were limited to commercial paper, negotiable CD's, Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and U.S. government money market mutual funds. In accordance with the cash basis of accounting, all District investments are reported at cost.

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 receipts credited to the general fund during fiscal year 2018 amounted to \$69,771, which includes \$9,893 assigned from other District funds.

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

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

G. Inventory and Prepaid Items

The District reports cash disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

H. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as cash disbursements when paid. These items are not reflected as assets in the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

I. Interfund Balances

On the fund financial statements, the District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying fund financial statements under the cash basis of accounting. Advances are eliminated in the statement of activities.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation leave and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave and sick leave are not reflected as liabilities under the cash basis of accounting.

K. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

L. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the cash disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postemployment healthcare.

M. Long-Term Obligations

Bonds, loans, capital leases, and other long-term obligations are not recognized as liabilities in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for principal and interest payments, bond issuance costs, and payments to refunded bond escrow agent.

N. Fund Cash Balance

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

Nonspendable - The nonspendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

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

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

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

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

O. Restricted Cash Assets

Cash assets are reported as restricted when limitations on their use change the normal understanding of the availability of the cash assets. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District did not have any restricted cash assets at June 30, 2018.

P. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District did not have any net cash position restricted by enabling legislation at June 30, 2018.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Q. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements 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 and after nonoperating receipts/disbursements in the proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund transfers between governmental funds are eliminated in the statement of activities.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food Service	\$ 20,794
Public School Preschool	79,744
Vocational Education Enhancement	72
IDEA Part B	25,887
Title I	90,791
IDEA Part B - Preschool Stimulus	471
Improving Teacher Quality	4,699
Miscellaneous Federal Grants	35,961

C. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with GAAP. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was \$4,214,590 and the bank balance of all District deposits was \$4,578,231. Of the bank balance, \$3,299,917 was covered by the FDIC and \$1,278,314 was collateralized through the Ohio Pooled Collateral System (OPCS).

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although 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, 2018, the District had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Investments Maturities</u>		
		<u>6 months or less</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Commercial paper	\$ 1,915,037	\$ 1,915,037	\$ -	\$ -
Negotiable CD's	1,092,863	-	350,597	742,266
FFCB	614,764	-	-	614,764
FHLMC	374,719	-	-	374,719
FHLB	749,573	-	-	749,573
U.S. government money market mutual fund	9,137	9,137	-	-
Total	\$ 4,756,093	\$ 1,924,174	\$ 350,597	\$ 2,481,322

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of purchase unless they are matched to a specific obligation or debt of the District. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District's negotiable CD's were not rated but are fully covered by the FDIC. The commercial paper was rated A1+ and A1 by Standard & Poor's and P1 by Moody's Investor Services. The U.S. government money market mutual funds were rated AAAM by Standard and Poor's. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee. The District's investments in Federal agency securities are exposed to custodial credit risk as it is uninsured, unregistered, and held by the counterparty's trust department or agent in the District's name. The District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of Total</u>
Commercial paper	\$ 1,915,037	40.26
Negotiable CD's	1,092,863	22.98
FFCB	614,764	12.93
FHLMC	374,719	7.88
FHLB	749,573	15.76
U.S. government money market mutual funds	<u>9,137</u>	<u>0.19</u>
Total	<u>\$ 4,756,093</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash as reported in the note disclosure above to cash as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 4,214,590
Investments	4,756,093
Total	<u>\$ 8,970,683</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 8,907,275
Private-purpose trust fund	2,868
Agency fund	60,540
Total	<u>\$ 8,970,683</u>

NOTE 5 - INTERFUND TRANSACTIONS

Advances in/advances out consisted of the following at June 30, 2018 as reported on the fund statement:

<u>Advances in</u>	<u>Advances out</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 200,000</u>

The primary purpose of the advances is to cover costs in specific funds where revenues were not received by June 30. The advances will be repaid once the anticipated revenues are received.

The advance in to the general fund is a partial repayment of a prior year advance made to the permanent improvement fund.

Advances between governmental funds are eliminated on the government-wide financial statements.

In 2017 the District advanced the Permanent Improvement Fund \$875,000, which is included within the Other Governmental Funds, and is expected to have been paid back in 5 years. The remaining interfund balances at June 30, 2018 is \$675,000. The remaining interfund balance is expected to be repaid within the next 4 years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 and public utility property. Real property tax receipts received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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 receipts received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, 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.

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, 2017, are available to finance fiscal year 2018 operations. 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.

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 540,780,110	92.43	\$ 564,702,380	92.13
Public utility personal	<u>44,264,870</u>	<u>7.57</u>	<u>48,213,820</u>	<u>7.87</u>
Total	<u>\$ 585,044,980</u>	<u>100.00</u>	<u>\$ 612,916,200</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 37.73		\$ 37.73	

NOTE 7 - PAYMENTS IN LIEU OF TAXES

The District has entered into various tax increment financing agreements with local companies for the purpose of various improvements and developments. To encourage these improvements, the companies were granted an exemption from paying property taxes on the improvements and developments; however, payments in lieu of taxes are made to the District in an amount equal to the property taxes that otherwise would have been due in the current year. These payments are being used to finance the District's operations and will continue through fiscal year 2025. In the governmental fund financial statements, the District recorded payments in lieu of taxes cash receipts of \$371,421 in the general fund during fiscal year 2018.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2018, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2018</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Refunding bonds - Series 2014					
Current interest bonds	\$ 2,355,000	\$ -	\$ (730,000)	\$ 1,625,000	\$800,000
Energy conservation loan - 2008	<u>45,522</u>	<u>-</u>	<u>(45,522)</u>	<u>-</u>	<u>-</u>
Total long-term bonds and loans	<u>\$ 2,400,522</u>	<u>\$ -</u>	<u>\$ (775,522)</u>	<u>\$ 1,625,000</u>	<u>\$800,000</u>

General Obligation Bonds Payable - Series 2014: In June of 2014, the District issued \$3,795,000 in general obligation bonds for the refunding of the 2005 general obligation bonds. This refunding resulted in bond issuance costs of \$51,795 and payments to refunded bond escrow agent of \$3,956,611, and was undertaken to reduce the combined total debt service payments over a six-year period by \$192,778. These current interest bonds have a final maturity of December 1, 2019 and an interest rate of 1.656%. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund (a nonmajor governmental fund).

Energy Conservation Loan - 2008: In February of 2008, the District issued \$767,000 in 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 a final maturity during fiscal year 2018 and an interest rate of 2.75%. Payments of principal and interest are recorded as cash disbursements of the bond retirement fund (a nonmajor governmental fund).

- B. Principal and interest requirements to retire long-term obligations outstanding at fiscal year-end are as follows:

Fiscal Year Ending June 30,	Current Interest		
	<u>Refunding Bonds - Series 2014</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 800,000	\$ 20,286	\$ 820,286
2020	<u>825,000</u>	<u>6,831</u>	<u>831,831</u>
Total	<u>\$ 1,625,000</u>	<u>\$ 27,117</u>	<u>\$ 1,652,117</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - 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, 2018, are a voted debt margin of \$53,940,932 (including available funds of \$403,474) and an unvoted debt margin of \$612,916.

NOTE 9 - 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 2018, the District’s insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Buildings and contents blanket coverage	\$ 1,000	\$ 132,026,032
Inland marine coverage	500	101,375
Automobile liability	1,000	1,000,000
General liability		
Per occurrence		1,000,000
General aggregate		3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in the amounts of insurance coverage from fiscal year 2017.

B. Health Care Self-Insurance Program

Medical/pharmacy and dental insurance is offered to employees through a self-insurance internal service fund. The District contracts with Gallagher Benefit Services for health care consulting services and pays a monthly fee for those services. In addition, the District pays an administrative fee to Mutual Health Services, a third-party administrator, who in turn pays the claims for the District. Claims of \$306,000 are due to be paid from the internal service fund at June 30, 2018. The claims outstanding balance is based on an estimate supplied by the District’s third-party administrator, and includes estimates of costs relating to incurred but not reported claims.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - RISK MANAGEMENT – (Continued)

Changes in claims due for the current and prior fiscal year are as follows:

<u>Fiscal Year</u>	Beginning <u>Balance</u>	Claims <u>Incurred</u>	Claims <u>Payments</u>	Ending <u>Balance</u>
2018	\$ 391,000	\$ 4,322,567	\$ (4,407,567)	\$ 306,000
2017	603,157	4,368,102	(4,580,259)	391,000

C. Workers' Compensation

The District participated in the SchoolComp Group Retrospective Rating Program (Group Retro) in fiscal year 2018 (See Note 2.A.). The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount. The District continues to pay their individual premium; however, the District will have the opportunity to receive retrospective premium adjustments (refunds or assessments) at the end of the three evaluation periods. The group's retrospective premium will be calculated at 12, 24, and 36 months after the end of the policy year. At the end of each period, the Bureau of Workers' Compensation (BWC) will take a snap-shot of the incurred claims losses for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, all the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by the BWC. CompManagement, LLC. provides administrative, cost control and actuarial services to the SchoolComp Group Retro program.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$568,773 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - County licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$2,755,168 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.12107330%	0.16645596%	
Proportion of the net pension liability current measurement date	<u>0.12725000%</u>	<u>0.17360162%</u>	
Change in proportionate share	<u>0.00617670%</u>	<u>0.00714566%</u>	
Proportionate share of the net pension liability	\$ 7,602,906	\$ 41,239,437	\$ 48,842,343

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 10,550,858	\$ 7,602,906	\$ 5,133,395

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS; investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
District's proportionate share of the net pension liability	\$ 59,115,329	\$ 41,239,437	\$ 26,181,677

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB liability represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**MOUNT VERNON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Chapter 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$64,972.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$86,038 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.12808370%	0.17360162%	
Proportion of the net OPEB liability current measurement date	<u>0.12808370%</u>	<u>0.17360162%</u>	
Change in proportionate share	<u>0.00000000%</u>	<u>0.00000000%</u>	
Proportionate share of the net OPEB liability	\$ 3,437,430	\$ 6,773,295	\$ 10,210,725

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

**MOUNT VERNON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
District's proportionate share of the net OPEB liability	\$ 4,151,134	\$ 3,437,430	\$ 2,871,994

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 2,789,217	\$ 3,437,430	\$ 4,295,351

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 9,093,039	\$ 6,773,295	\$ 4,939,938
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 4,705,795	\$ 6,773,295	\$ 9,494,366

NOTE 12 - EMPLOYEE BENEFITS

A. Unpaid Vacation Leave and Sick Leave

The criteria for determining vacation leave and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation leave per fiscal year, depending upon length of service. Accumulated, unused vacation leave is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation leave.

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 administrators.

Unpaid vacation leave and sick leave is not recorded as a liability on the basic financial statements in accordance with the cash basis of accounting.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of cash receipts, disbursements and change in fund balance - budget and actual (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 cash basis are that:

- (a) 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 a cash disbursement, as opposed to assigned, committed, or restricted fund cash balance for that portion of outstanding encumbrances (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Cash Balance

	<u>General fund</u>
Budget basis	\$ (199,966)
Funds budgeted elsewhere	15,477
Adjustment for encumbrances	19,862
Cash basis	<u>\$ (164,627)</u>

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a cash basis. This includes the public school support fund.

NOTE 14 - 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 not party to any legal proceedings that would have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 – CONTINGENCIES – (Continued)

C. State Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not finalized, but the District owes ODE \$58,800 for the first adjustment and received \$26,167 for the second adjustment netting out to \$32,633 owed to ODE.

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, 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. This amount must be carried forward to be used for the same purpose in future years. Disbursements and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	697,000
Current year offsets	<u>(997,689)</u>
Total	<u>\$ (300,689)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

During fiscal years 2005 and 2014, the District issued \$8,315,000 in capital related school improvement bonds and refunding bonds. These proceeds may be used to reduce the capital improvements set-aside amount for future years. The amount presented for prior year offset from debt proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of debt proceeds that may be used as an offset in future periods, which was \$8,315,000 at June 30, 2018.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 16 - COMMITMENTS

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

<u>Fund</u>	<u>Year End Encumbrances</u>
General fund	\$ 20,760
Nonmajor governmental funds	<u>64,145</u>
 Total	 <u>\$ 84,905</u>

NOTE 17 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments have entered into property tax abatement agreements with property owners under Enterprise Zone Agreements ("EZAs") and the Ohio Community Reinvestment Area ("CRA") program within taxing districts of the District. The EZAs and CRA program are directive incentive tax exemption programs benefiting property owners who renovate or construct new buildings. Under these programs, the other governments have designated areas to encourage revitalization of the existing housing stock and the development of new structures.

The District has incurred a reduction in property tax receipts due to agreements entered into by other governments. During fiscal year 2018, the District's property tax receipts were reduced under agreements entered into by other governments as follows:

<u>Government Entering Into Agreement</u>	<u>Tax Abatement Program</u>		<u>District Taxes Abated</u>
	<u>CRA</u>	<u>Ezone</u>	
City of Mount Vernon	\$ 13,013	\$ 128,904	\$ 141,917
Clinton Township	-	4,006	4,006
Liberty Township	-	<u>64,186</u>	<u>64,186</u>
 Total	 <u>\$ 13,013</u>	 <u>\$ 197,096</u>	 <u>\$ 210,109</u>

The District is not receiving any amounts from these other governments in association with the forgone property tax receipts.

NOTE 18 – SUBSEQUENT EVENTS

On January 14, 2019, the District approved placing a 2.9 mill levy for general permanent improvements on the May 7, 2019 ballot.

On February 11, 2019, the District approved accepting donations for the fieldhouse, bus garage, and other improvements project that will be collected and held by the Knox County Foundation.

On February 11, 2019, the Board approved the issuance of \$2,500,000 in Tax Anticipation Notes for the purpose of paying costs of general permanent improvements.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
Child Nutrition Cluster		
Non-Cash Assistance (Food Distribution):		
National School Lunch Program	10.555	\$ 128,986
Cash Assistance:		
School Breakfast Program	10.553	240,011
National School Lunch Program	10.555	740,534
Summer Food Service Program for Children	10.559	25,536
Total Child Nutrition Cluster		<u>1,135,067</u>
Fresh Fruit and Vegetable Program	10.582	28,776
Child Nutrition Discretionary Grants Limited Availability	10.579	<u>4,193</u>
Total U.S. Department of Agriculture		<u>1,168,036</u>
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
Title I Grants to Local Educational Agencies	84.010	1,002,259
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	940,934
Special Education - Preschool Grant	84.173	14,198
Total Special Education Cluster (IDEA)		<u>955,132</u>
Rural Education Grant	84.358	81,820
Improving Teacher Quality State Grants	84.367	174,755
Student Support and Academic Enrichment Program	84.424A	<u>23,000</u>
Total U.S. Department of Education		<u>2,236,966</u>
Total Expenditures of Federal Awards		<u>\$ 3,405,002</u>

The accompanying notes are an integral part of this schedule.

**MOUNT VERNON CITY SCHOOL
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Mount Vernon City School District (the District's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE E – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE F - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2018 to 2019 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 59,133
Special Education - Grants to States	84.027	\$ 41,854
Improving Teacher Quality State Grant	84.367	\$ 1,254
Student Support and Academic Enrichment Program	84.424A	\$ 980

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Mount Vernon City School District, Knox County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 4, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 4, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Mount Vernon City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Mount Vernon City School District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

88 East Broad Street, Columbus, Ohio 43215
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Opinion on Each Major Federal Program

In our opinion, the Mount Vernon City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 4, 2019

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster, Child Nutrition Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING NUMBER 2018-001

Annual Financial Reporting - Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year within 60 days of year end. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

**MOUNT VERNON CITY SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
June 30, 2018
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2018-001 (Continued)

Annual Financial Report - Noncompliance (Continued)

Ohio Admin. Code § 117-2-03(B) requires the District to file its annual financial report which is prepared using generally accepted accounting principles (GAAP). However, the District prepared its financial statements, that although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP.

The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that while presumed material, cannot be determined at this time. Pursuant to Ohio Rev. Code §117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report and within the filing deadline.

In addition, the financial statements were filed on September 20, 2018 after the August 29, 2018 filing deadline.

Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles and file them timely.

Officials' Response:

See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

Mount Vernon City Schools

Board of Education
300 Newark Road
Mount Vernon, OH 43050



William Seder Jr., Superintendent Judy Forney, Treasurer
Phone: (740)397-7422 Fax: (740)393-5949 Web Site: www.mvcsd.us

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001 2016-001	Ohio Rev. Code §117.38 – Annual Financial Report not prepared in accordance with generally accepted accounting principles Finding initially issued during FY12 Audit.	Not Corrected	The Board of Education voted unanimously in 2013 not to report on a GAAP basis. Given the size of the District, the cost to report on GAAP exceeded the benefits. Mount Vernon reports on OCBOA. Reissued as 2018-001

Mount Vernon City Schools

Board of Education
300 Newark Road
Mount Vernon, OH 43050



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CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Mount Vernon Board of Education, knowing that the GAAP method is required by the Ohio Revised Code, decided in the interest of cost containment to approve a contract with Julian & Grube for OCBOA statements to be prepared instead of GAAP for this year. The Board is aware that there will be a comment on our audit to address this matter, along with a financial penalty.	Reassess annually	Judy Forney, Treasurer

OHIO AUDITOR OF STATE KEITH FABER



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 26, 2019**