



**Auditor of State
Betty Montgomery**

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
East Knox Local School District
Knox County
23201 Coshocton Road
Howard, Ohio 43028

We have audited the accompanying general-purpose financial statements of the East Knox Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the East Knox Local School District, Knox County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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Betty Montgomery
Auditor of State

November 20, 2003

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East Knox Local School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,625,821	\$59,806	\$518,318	\$45,951
Cash and Cash Equivalents				
With Fiscal Agent	0	0	35,000	0
Taxes Receivable	4,043,590	0	349,523	140,081
Intergovernmental Receivable	0	0	0	0
Interfund Receivable	14,500	0	0	0
Prepaid Items	32,615	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	54,699	0	0	0
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$6,771,225	\$59,806	\$902,841	\$186,032

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$108,422	\$59,565	\$0	\$0	\$3,417,883
0	0	0	0	35,000
0	0	0	0	4,533,194
10,514	0	0	0	10,514
0	0	0	0	14,500
0	0	0	0	32,615
4,214	0	0	0	4,214
631	0	0	0	631
0	0	0	0	54,699
20,219	0	3,608,030	0	3,628,249
0	0	0	564,347	564,347
0	0	0	3,345,458	3,345,458
<u>\$144,000</u>	<u>\$59,565</u>	<u>\$3,608,030</u>	<u>\$3,909,805</u>	<u>\$15,641,304</u>

(continued)

East Knox Local School District
Combined Balance Sheet
All Fund Types and Account Groups (continued)
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$15,154	\$3,310	\$0	\$1,368
Accrued Wages	453,379	0	0	0
Compensated Absences Payable	3,713	0	0	0
Interfund Payable	0	0	0	14,500
Intergovernmental Payable	90,443	654	0	0
Deferred Revenue	3,511,088	0	303,494	121,634
Due to Students	0	0	0	0
Matured Bonds Payable	0	0	35,000	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	4,073,777	3,964	338,494	137,502
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	246,852	18,648	0	12,961
Reserved for Property Taxes	532,502	0	46,029	18,447
Reserved for Textbooks	54,699	0	0	0
Unreserved, Undesignated (Deficit)	1,863,395	37,194	518,318	17,122
Total Fund Equity and Other Credits	2,697,448	55,842	564,347	48,530
Total Liabilities, Fund Equity and Other Credits	\$6,771,225	\$59,806	\$902,841	\$186,032

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$6,945	\$0	\$0	\$0	\$26,777
12,294	0	0	0	465,673
3,290	0	0	191,901	198,904
0	0	0	0	14,500
10,781	0	0	62,284	164,162
0	0	0	0	3,936,216
0	59,565	0	0	59,565
0	0	0	0	35,000
0	0	0	195,620	195,620
0	0	0	3,460,000	3,460,000
<u>33,310</u>	<u>59,565</u>	<u>0</u>	<u>3,909,805</u>	<u>8,556,417</u>
0	0	3,608,030	0	3,608,030
110,690	0	0	0	110,690
0	0	0	0	278,461
0	0	0	0	596,978
0	0	0	0	54,699
0	0	0	0	2,436,029
<u>110,690</u>	<u>0</u>	<u>3,608,030</u>	<u>0</u>	<u>7,084,887</u>
<u>\$144,000</u>	<u>\$59,565</u>	<u>\$3,608,030</u>	<u>\$3,909,805</u>	<u>\$15,641,304</u>

East Knox Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003*

	General	Special Revenue
Revenues		
Property and Other Local Taxes	\$3,161,968	\$0
Intergovernmental	4,278,323	241,955
Interest	49,906	380
Tuition and Fees	297,514	0
Extracurricular Activities	0	66,383
Contributions and Donations	0	300
Rentals	4,115	0
Miscellaneous	12,200	25,476
<i>Total Revenues</i>	7,804,026	334,494
Expenditures		
Current:		
Instruction:		
Regular	2,884,351	68,076
Special	1,737,799	161,997
Vocational	124,802	0
Support Services:		
Pupils	343,783	6,390
Instructional Staff	94,056	23,754
Board of Education	25,630	0
Administration	629,574	515
Fiscal	269,788	3,190
Business	3,549	0
Operation and Maintenance of Plant	546,068	1,134
Pupil Transportation	539,635	0
Central	4,951	110
Operation of Non-Instructional Services	339	0
Extracurricular Activities	124,207	87,399
Capital Outlay	99,264	11,160
Debt Service:		
Principal Retirement	0	0
Interest and Fiscal Charges	0	0
<i>Total Expenditures</i>	7,427,796	363,725
<i>Excess of Revenues Over (Under) Expenditures</i>	376,230	(29,231)
<i>Fund Balances Beginning of Year</i>	2,321,218	85,073
<i>Fund Balances End of Year</i>	\$2,697,448	\$55,842

See accompanying notes to the general purpose financial statements

Debt Service	Capital Projects	Totals (Memorandum Only)
\$273,458	\$103,699	\$3,539,125
38,253	14,200	4,572,731
0	0	50,286
0	0	297,514
0	0	66,383
0	0	300
0	0	4,115
0	11,160	48,836
<u>311,711</u>	<u>129,059</u>	<u>8,579,290</u>
0	0	2,952,427
0	0	1,899,796
0	0	124,802
0	0	350,173
0	0	117,810
0	0	25,630
0	0	630,089
6,370	0	279,348
0	0	3,549
0	0	547,202
0	0	539,635
0	0	5,061
0	0	339
0	0	211,606
0	201,371	311,795
160,000	65,079	225,079
<u>192,850</u>	<u>16,173</u>	<u>209,023</u>
<u>359,220</u>	<u>282,623</u>	<u>8,433,364</u>
<u>(47,509)</u>	<u>(153,564)</u>	<u>145,926</u>
<u>611,856</u>	<u>202,094</u>	<u>3,220,241</u>
<u>\$564,347</u>	<u>\$48,530</u>	<u>\$3,366,167</u>

East Knox Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$3,527,700	\$3,518,012	(\$9,688)
Intergovernmental	4,280,549	4,278,814	(1,735)
Interest	52,000	49,906	(2,094)
Tuition and Fees	297,453	297,514	61
Extracurricular Activities	0	0	0
Contributions and Donations	0	0	0
Rentals	5,500	4,115	(1,385)
Miscellaneous	12,300	12,200	(100)
<i>Total Revenues</i>	<u>8,175,502</u>	<u>8,160,561</u>	<u>(14,941)</u>
Expenditures			
Current:			
Instruction:			
Regular	2,944,812	2,900,901	43,911
Special	820,905	770,120	50,785
Vocational	137,401	135,577	1,824
Other	1,008,789	982,517	26,272
Support Services:			
Pupils	352,778	349,988	2,790
Instructional Staff	86,121	81,660	4,461
Board of Education	14,091	10,839	3,252
Administration	712,221	685,319	26,902
Fiscal	268,597	247,025	21,572
Operation and Maintenance of Plant	671,967	644,429	27,538
Pupil Transportation	685,955	643,682	42,273
Central	4,951	4,951	0
Operation of Non-Instructional Services	403	339	64
Extracurricular Activities	123,953	123,543	410
Capital Outlay	115,559	99,264	16,295
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>7,948,503</u>	<u>7,680,154</u>	<u>268,349</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>226,999</u>	<u>480,407</u>	<u>253,408</u>
Other Financing Sources			
Refund of Prior Year's Expenditures	5,400	5,395	(5)
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	232,399	485,802	253,403
<i>Fund Balances Beginning of Year</i>	1,735,670	1,735,670	0
Prior Year Encumbrances Appropriated	197,042	197,042	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$2,165,111</u>	<u>\$2,418,514</u>	<u>\$253,403</u>

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$305,500	\$304,105	(\$1,395)
258,094	258,093	(1)	38,300	38,253	(47)
400	380	(20)	0	0	0
0	0	0	0	0	0
67,770	66,377	(1,393)	0	0	0
300	300	0	0	0	0
0	0	0	0	0	0
26,552	25,476	(1,076)	0	0	0
<u>353,116</u>	<u>350,626</u>	<u>(2,490)</u>	<u>343,800</u>	<u>342,358</u>	<u>(1,442)</u>
88,285	80,242	8,043	0	0	0
166,318	163,689	2,629	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
8,752	6,401	2,351	0	0	0
35,725	30,616	5,109	0	0	0
0	0	0	0	0	0
865	865	0	0	0	0
3,200	3,200	0	8,150	6,370	1,780
1,134	1,134	0	0	0	0
0	0	0	0	0	0
1,290	110	1,180	0	0	0
0	0	0	0	0	0
116,663	94,083	22,580	0	0	0
11,160	11,160	0	0	0	0
0	0	0	160,000	160,000	0
0	0	0	192,850	192,850	0
<u>433,392</u>	<u>391,500</u>	<u>41,892</u>	<u>361,000</u>	<u>359,220</u>	<u>1,780</u>
<u>(80,276)</u>	<u>(40,874)</u>	<u>39,402</u>	<u>(17,200)</u>	<u>(16,862)</u>	<u>338</u>
0	0	0	0	0	0
(80,276)	(40,874)	39,402	(17,200)	(16,862)	338
61,574	61,574	0	535,180	535,180	0
16,648	16,648	0	0	0	0
<u>(\$2,054)</u>	<u>\$37,348</u>	<u>\$39,402</u>	<u>\$517,980</u>	<u>\$518,318</u>	<u>\$338</u>

(continued)

East Knox Local School District
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types (continued)
For the Fiscal Year Ended June 30, 2003*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$122,175	\$116,004	(\$6,171)
Intergovernmental	14,350	14,200	(150)
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	0	0	0
Rentals	0	0	0
Miscellaneous	11,160	11,160	0
<i>Total Revenues</i>	<u>147,685</u>	<u>141,364</u>	<u>(6,321)</u>
Expenditures			
Current:			
Instruction:			
Regular	48,977	48,977	0
Special	0	0	0
Vocational	0	0	0
Other	0	0	0
Support Services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	6,792	6,792	0
Fiscal	2,471	2,471	0
Operation and Maintenance of Plant	206,116	187,390	18,726
Pupil Transportation	0	0	0
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Capital Outlay	97,946	97,946	0
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>362,302</u>	<u>343,576</u>	<u>18,726</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(214,617)</u>	<u>(202,212)</u>	<u>12,405</u>
Other Financing Sources			
Refund of Prior Year's Expenditures	0	0	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(214,617)</u>	<u>(202,212)</u>	<u>12,405</u>
<i>Fund Balances Beginning of Year</i>	42,967	42,967	0
Prior Year Encumbrances Appropriated	190,867	190,867	0
<i>Fund Balances (Deficit) End of Year</i>	<u>\$19,217</u>	<u>\$31,622</u>	<u>\$12,405</u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$3,955,375	\$3,938,121	(\$17,254)
4,591,293	4,589,360	(1,933)
52,400	50,286	(2,114)
297,453	297,514	61
67,770	66,377	(1,393)
300	300	0
5,500	4,115	(1,385)
50,012	48,836	(1,176)
<u>9,020,103</u>	<u>8,994,909</u>	<u>(25,194)</u>
3,082,074	3,030,120	51,954
987,223	933,809	53,414
137,401	135,577	1,824
1,008,789	982,517	26,272
361,530	356,389	5,141
121,846	112,276	9,570
14,091	10,839	3,252
719,878	692,976	26,902
282,418	259,066	23,352
879,217	832,953	46,264
685,955	643,682	42,273
6,241	5,061	1,180
403	339	64
240,616	217,626	22,990
224,665	208,370	16,295
160,000	160,000	0
192,850	192,850	0
<u>9,105,197</u>	<u>8,774,450</u>	<u>330,747</u>
<u>(85,094)</u>	<u>220,459</u>	<u>305,553</u>
5,400	5,395	(5)
(79,694)	225,854	305,548
2,375,391	2,375,391	0
404,557	404,557	0
<u>\$2,700,254</u>	<u>\$3,005,802</u>	<u>\$305,548</u>

East Knox Local School District
Combined Statement of Revenues,
Expenses and Changes in Retained Earnings
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	<u>Enterprise</u>
Operating Revenues	
Sales	\$246,063
Other	3,755
	<u>249,818</u>
<i>Total Operating Revenues</i>	<u>249,818</u>
Operating Expenses	
Salaries and Wages	78,216
Fringe Benefits	57,249
Purchased Services	6,246
Materials and Supplies	84,281
Cost of Sales	117,182
Depreciation	4,796
	<u>347,970</u>
<i>Total Operating Expenses</i>	<u>347,970</u>
<i>Operating Loss</i>	<u>(98,152)</u>
Non-Operating Revenues	
Donated Commodities	29,519
Interest	1,059
Operating Grants	77,383
	<u>107,961</u>
<i>Total Non-Operating Revenues</i>	<u>107,961</u>
<i>Net Income</i>	9,809
<i>Retained Earnings Beginning of Year</i>	<u>100,881</u>
<i>Retained Earnings End of Year</i>	<u><u>\$110,690</u></u>

See accompanying notes to the general purpose financial statements

East Knox Local School District
*Combined Statement of Revenues, Expenses
and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003*

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sales	\$251,825	\$246,063	(\$5,762)
Interest	1,200	1,059	(141)
Operating Grants	67,925	66,869	(1,056)
Other	4,000	3,755	(245)
<i>Total Revenues</i>	<u>324,950</u>	<u>317,746</u>	<u>(7,204)</u>
Expenses			
Salaries and Wages	91,647	89,259	2,388
Fringe Benefits	43,191	43,178	13
Purchased Services	8,057	7,778	279
Materials and Supplies	260,554	188,120	72,434
<i>Total Expenses</i>	<u>403,449</u>	<u>328,335</u>	<u>75,114</u>
<i>Excess of Revenues Under Expenses</i>	(78,499)	(10,589)	67,910
<i>Fund Equity Beginning of Year</i>	91,974	91,974	0
Prior Year Encumbrances Appropriated	<u>2,424</u>	<u>2,424</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u>\$15,899</u>	<u>\$83,809</u>	<u>\$67,910</u>

See accompanying notes to the general purpose financial statements

*East Knox Local School District
 Combined Statement of Cash Flows
 Proprietary Fund Type
 For the Fiscal Year Ended June 30, 2003*

	<u>Enterprise</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$246,063
Cash Received from Other Operating Sources	3,755
Cash Payments for Goods and Services	(171,285)
Cash Payments to Employees for Services	(89,259)
Cash Payments for Employee Benefits	(43,178)
<i>Net Cash Used for Operating Activities</i>	(53,904)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	66,869
Cash Flows from Investing Activities	
Interest on Investments	1,059
<i>Net Increase in Cash and Cash Equivalents</i>	14,024
<i>Cash and Cash Equivalents Beginning of Year</i>	94,398
<i>Cash and Cash Equivalents End of Year</i>	\$108,422
	(continued)

*East Knox Local School District
 Combined Statement of Cash Flows
 Proprietary Fund Type (continued)
 For the Fiscal Year Ended June 30, 2003*

	<u>Enterprise</u>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>	
<i>Operating Loss</i>	<u>(\$98,152)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	4,796
Donated Commodities Used During Year	29,519
Increase/(Decrease) in Liabilities:	
Accounts Payable	6,905
Accrued Wages	(307)
Compensated Absences Payable	(22)
Intergovernmental Payable	<u>3,357</u>
<i>Total Adjustments</i>	<u>44,248</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$53,904)</u></u>

Non-Cash Non Capital Activity:

Federal donated commodities in the amount of \$29,519 were recorded as revenue during the year.

See accompanying notes to the general purpose financial statements

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East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

East Knox Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's two instructional/support facilities staffed by 5 administrators, 48 noncertified and 74 certificated full time teaching personnel who provide services to 1,283 students and other community members.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For East Knox Local School District, this includes general operations, food service, preschool, before/after care and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes for the organization. The School District has no component units.

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Parents and Teachers for Students, Athletic Boosters, Music Boosters and Renaissance Club The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over these organizations.

The School District participates in a jointly governed organization and an insurance purchasing pool. These organizations are presented in Note 16 to the general purpose financial statements. These organizations are:

Jointly Governed Organization:

Tri-Rivers Educational Computer Association

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 2 - Summary of Significant Accounting Policies

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

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund The debt service fund is used to account for the accumulation of, resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Enterprise Funds Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The School District has no trust funds. The School District's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for governmental and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

C. Budgetary Process

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 has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the function and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board of Education. Any budgetary modifications at the fund 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 express 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.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Estimated Resources Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the certificate of estimated resources that was in effect at the time the 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 legally 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 School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

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 year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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

D. Cash and Cash Equivalents

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

The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the combined balance sheet as "cash and cash equivalents with fiscal agent" and represents deposits.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

During fiscal year 2003, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$49,906 which includes \$10,205 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used. The governmental funds did not have any significant inventory on hand at June 30, 2003.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the purchase of textbooks and other instructional material. See Note 19 for additional information regarding set-asides.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintained a capitalization threshold of three hundred dollars which was increased to one thousand dollars in 2003. The increase in threshold did not cause a material change from the prior year. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after fiscal year end are generally considered not to have been made with current available financial resources. Bonds and capital leases are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following fiscal year.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

L. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 – Accountability and Compliance

A. Fund Deficits

The following funds had deficit fund balances at June 30, 2003:

Special Revenue Funds:	Deficit
Management Information Systems	\$8
Disadvantaged Pupil Impact Aid	11
Title VI-B	22

The deficits in the special revenue funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

B. Compliance

Contrary to Section 5705.39, Ohio Revised Code, the following funds had appropriations in excess of estimated revenues and carryover balances:

	Balances	Appropriations	Excess
Special Revenue Funds:			
Extracurricular Activities	\$78,628	\$82,085	(\$3,457)

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual, Proprietary Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$376,230	(\$29,231)	(\$47,509)	(\$153,564)
Net Adjustments for Revenue Accruals	361,930	16,132	30,647	12,305
Net Adjustments for Expenditure Accrual	9,648	(5,317)	0	(46,624)
Adjustment for Encumbrances	(262,006)	(22,458)	0	(14,329)
Budget Basis	\$485,802	(\$40,874)	(\$16,862)	(\$202,212)

Net Income/Excess of Revenues
Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	\$9,809
Net Adjustments for Revenue Accruals	(10,514)
Net Adjustments for Expense Accrual	9,933
Depreciation Expense	4,796
Adjustment for Encumbrances	(24,613)
Budget Basis	(\$10,589)

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 5 - Deposits and Investments

State statutes classify monies held by the School 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 School 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 pass book accounts.

Protection of School 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.

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 exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 (STAROhio);
7. Certain Banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classification by at least two nationally recognized rating agencies.

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 School 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. The following information classifies deposits and investments by categories of risk as defined in GASB No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$117,156 and the bank balance was \$318,268. Of the bank balance:

- A. \$216,325 was covered by federal depository insurance; and
- B. \$101,943 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department in the School District's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2003, the School District's investment in STAROhio had a carrying amount and a fair value of \$3,390,426.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,507,582	\$0
Investments of the Cash Management Pool:		
STAROhio	(3,390,426)	3,390,426
GASB Statement No. 3	\$117,156	\$3,390,426

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox, Licking and Coshocton Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The amount available as an advance at June 30, 2003 was \$532,502 in the general fund, \$46,029 in the debt service fund, and \$18,447 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2002, was \$888,546 in the general fund, \$76,676 in the debt service fund, and \$30,752 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$130,048,870	94.26 %	\$137,196,720	94.74 %
Public Utility Personal	6,465,370	4.69	5,997,850	4.14
Tangible Personal Property	<u>1,449,330</u>	<u>1.05</u>	<u>1,621,652</u>	<u>1.12</u>
Total	<u><u>\$137,963,570</u></u>	<u><u>100.00 %</u></u>	<u><u>\$144,816,222</u></u>	<u><u>100.00 %</u></u>
Tax rate per \$1,000 of assessed valuation	\$38.90		\$38.90	

Note 7 - Receivables

Receivables at June 30, 2003, consisted of property taxes, interfund and intergovernmental grants. All receivables are considered collectible in full. At fiscal year end, the food service enterprise fund had intergovernmental receivables in the amount of \$10,514.

Note 8 - Fixed Assets

A summary of the enterprise funds' fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$176,184
Less: Accumulated Depreciation	<u>(155,965)</u>
Net Fixed Assets	<u><u>\$20,219</u></u>

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	Balance 6/30/2002	Additions	Deductions	Balance 6/30/2003
Land and Improvements	\$108,520	\$94,889	\$0	\$203,409
Buildings	1,225,093	0	0	1,225,093
Vehicles	679,879	81,995	31,300	730,574
Furniture and Equipment	1,566,262	64,796	182,104	1,448,954
Total General Fixed Assets	<u>\$3,579,754</u>	<u>\$241,680</u>	<u>\$213,404</u>	<u>\$3,608,030</u>

There was no significant construction in progress at June 30, 2003.

Note 9 - Risk Management

A. Property and Liability

The School 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. For fiscal year 2003, the School District contracted with Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$21,420,980 limit.

Through February 1, 2003, professional liability was protected by Ohio School Plan through Harcum-Hyre Insurance Agency, with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and no deductible. A new policy for professional liability was entered into with Ohio School Insurance Program with Selective Insurance Company of South Carolina on November 20, 2003. Professional liability protection was set at \$2,000,000 single occurrence limit and \$4,000,000 aggregate and a \$1,000 deductible.

Vehicles are covered by the Ohio School Plan and hold a \$250 deductible for comprehensive and \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. As noted above, there was a lapse in contract dates for professional liability coverage. District management is currently investigating the legal aspects of the insurance contracts, lapse in contract dates and coverage. Management is also unaware of any material pending claims that may effect the period in question.

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 10 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 5.46 percent. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$83,840, \$55,996 and \$50,554 respectively; 55.43 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$393,512, \$262,813, and \$125,393 respectively; 86.26 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$236 made by the School District and \$254 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$30,270 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent the premium.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$71,072.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 12 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 195 days for certified and 120 days for classified employees.

B. Health Care Benefits

The School District provides health and dental insurance to most employees through Anthem Blue Cross/Blue Shield for all regular certified and noncertified employees. The School District also provides life insurance and accidental death and dismemberment insurance to most employees in the amount of \$20,000, for all regular certified and noncertified employees and \$50,000 for the Superintendent and two principals.

Note 13 - Capitalized Leases - Lessee Disclosure

In prior fiscal years, the School District entered into capitalized leases for copiers, computers and modular classrooms.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$313,589, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	General Long-Term Obligation
2004	\$81,252
2005	55,430
2006	40,560
2007	40,560
Total Minimum Lease Payments	217,802
Less: Amount Representing Interest	(22,182)
Present Value of Minimum Lease Payments	\$195,620

Note 14 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003, were as follows:

	Principal Outstanding 06/30/02	Additions	Deductions	Principal Outstanding 06/30/03
Capital Leases	\$260,699	\$0	\$65,079	\$195,620
General Obligation Bonds:				
1993 5.4%-6.5% \$4,400,000	3,620,000	0	160,000	3,460,000
Compensated Absences	184,352	16,542	8,993	191,901
Intergovernmental Payable	64,791	62,284	64,791	62,284
Total General Long-Term Obligations	\$4,129,842	\$78,826	\$298,863	\$3,909,805

The capital lease obligation will be paid from the permanent improvement capital projects fund. The school improvement bonds which mature in December of 2018 were paid from the debt service fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$10,137,807 with an unvoted debt margin of \$144,816 at June 30, 2003. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2003, are as follows:

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Fiscal Year Ending June 30,	School Improvement Bond
2004	\$353,160
2005	362,815
2006	337,675
2007	333,090
2008	328,235
2009-2013	1,578,090
2014-2018	1,519,210
2019	277,290
Total Principal and Interest	5,089,565
Less: Interest	(1,629,565)
Total Principal	\$3,460,000

Note 15 - Segment Information for Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food ser/vic and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2003.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$209,063	\$40,755	\$249,818
Depreciation	4,796	0	4,796
Operating Income (Loss)	(92,459)	(5,693)	(98,152)
Donated Commodities	29,519	0	29,519
Operating Grants	77,383	0	77,383
Net Income (Loss)	15,502	(5,693)	9,809
Net Working Capital	80,634	13,127	93,761
Total Assets	124,773	19,227	144,000
Long-Term Compensated Absences Payable	3,290	0	3,290
Total Equity	97,563	13,127	110,690
Encumbrances at 6/30/03	11,180	13,433	24,613

Note 16 - Jointly Governed Organization and Public Entity Risk Pool

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$66,041 to TRECA during fiscal year 2003 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 17 - Contingencies

A. Grants

The School District received financial assistance from federal and State 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The East Knox Local School District is not a party to any legal proceedings.

Note 18 – Interfund Activity

At June 30, 2003, the general fund had an interfund receivable for \$14,500 and the permanent improvement capital projects fund had an interfund payable for the same amount.

Note 19 - Set-Asides

The East Knox Local School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

East Knox Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2002	\$4,608	\$0
Current Year Set-aside Requirement	148,615	148,615
Current Year Offsets	0	(129,598)
Qualifying Disbursements	(98,524)	(94,889)
Totals	\$54,699	(\$75,872)
Set-aside Balance Carried Forward to Future Fiscal Years	\$54,699	\$0
Set-aside Reserve Balance as of June 30, 2003	\$54,699	\$0

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amounts to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the two set-asides at the end of the fiscal year was \$54,699.

Note 20 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department Of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster: School Breakfast Program	05-PU-2003	10.553	\$317	\$0	\$317	\$0
National School Lunch Program	LL-P4-2003	10.555	63,104	0	63,104	0
Food Distribution	N/A	10.550	<u>0</u>	<u>29,519</u>	<u>0</u>	<u>29,519</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>63,421</u>	<u>29,519</u>	<u>63,421</u>	<u>29,519</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-2003	84.010	<u>47,670</u>	<u>0</u>	<u>47,070</u>	<u>0</u>
Innovative Education Program Strategies	C2-S1-2002 C2-S1-2003	84.298	1,138	0	2,690	0
Total Innovative Education Program Strategies			<u>6,363</u>	<u>0</u>	<u>1,894</u>	<u>0</u>
			<u>7,501</u>	<u>0</u>	<u>4,584</u>	<u>0</u>
Special Education Grants to States	6B-SF-2002 P 6B-SF-2003 P	84.027	0	0	5,840	0
Total Special Education Grants to States			<u>127,378</u>	<u>0</u>	<u>127,378</u>	<u>0</u>
			<u>127,378</u>	<u>0</u>	<u>133,218</u>	<u>0</u>
Drug Free Schools Grant	DR-S1-2002 DR-S1-2003	84.186	0	0	3,102	0
Total Drug Free Schools Grant			<u>3,768</u>	<u>0</u>	<u>0</u>	<u>0</u>
			<u>3,768</u>	<u>0</u>	<u>3,102</u>	<u>0</u>
Title VI-R-- Class Size Reduction Grant	CR-S1-2002	84.340	<u>0</u>	<u>0</u>	<u>2,793</u>	<u>0</u>
Title II-A Improving Teacher Quality	CR-S1-2003	84.367	<u>27,008</u>	<u>0</u>	<u>27,008</u>	<u>0</u>
Title II-D Education Technology State Grant	TJ-SI-2003	84.318	<u>1,305</u>	<u>0</u>	<u>1,305</u>	<u>0</u>
Assistitive Technology	AT-S3-2002	84.352A	<u>2,628</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total U.S. Department of Education			<u>217,258</u>	<u>0</u>	<u>219,080</u>	<u>0</u>
Total Federal Awards			<u>\$280,679</u>	<u>\$29,519</u>	<u>\$282,501</u>	<u>\$29,519</u>

See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Education
East Knox Local School District
Knox County
23201 Coshocton Road
Howard, Ohio 43028

We have audited the general-purpose financial statements of East Knox Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-1. We also noted immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 20, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 20, 2003.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 20, 2003



Auditor of State Betty Montgomery

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

Board of Education
East Knox Local School District
Knox County
23201 Coshocton Road
Howard, Ohio 43028

Compliance

We have audited the compliance of East Knox Local School District, Knox County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 20, 2003

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027—Special Education Grants to States CFDA #10.555—Nutrition Cluster #10.553 #10.550
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003
(Continued)

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

2003-1

Land Purchase

Ohio Rev. Code Section 5705.10 requires that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made.

The District has a permanent improvement levy. The permanent improvement tax levy language states that the money derived from the levy is to be used "for the purpose of paying cost of improving and repairing all existing buildings, grounds, equipment, furniture, furnishings, and motor vehicles and to purchase additional equipment, furniture, furnishings, and motor vehicles".

The District purchased land and \$31,622 of the purchase was expended out of the Permanent Improvement Capital Projects Fund. The purchase of land is not one of the purposes permitted in the language of the permanent improvement tax levy. An adjustment was posted to move this expenditure to the General Fund on the June 30, 2003 financial statements. The adjustment has also been made on the District's financial records.

The District should ensure that the collections from the above mentioned permanent improvement levy are only used for the expenditures defined by the levy language.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2004**