



**Auditor of State
Betty Montgomery**

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

New Knoxville Local School District
Auglaize County
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited the accompanying financial statements of New Knoxville Local School District, Auglaize County, (the District), as of and for the years ended June 30, 2004 and June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects the combined fund cash balances of New Knoxville Local School District, as of June 30, 2004 and June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the District changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2005, 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.

This report is intended solely for the information and use of management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, 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

February 28, 2005

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts					
Taxes	\$1,047,118		\$91,678	\$35,802	\$1,174,598
Tuition	81,413				81,413
Intergovernmental	1,871,923	\$141,592	10,792	14,768	2,039,075
Interest	12,596				12,596
Extracurricular Activities	4,225	108,643			112,868
Miscellaneous	18,907	1,741			20,648
Total Cash Receipts	3,036,182	251,976	102,470	50,570	3,441,198
Cash Disbursements					
Current:					
Instruction:					
Regular	1,783,816	13,007		7,344	1,804,167
Special	39,927	123,226			163,153
Support Services:					
Pupils	112,013	4,629			116,642
Instruction	161,748				161,748
Board of Education	23,282				23,282
Administration	371,180	4,560			375,740
Fiscal	102,694		1,422	1,184	105,300
Operation and Maintenance	250,466				250,466
Transportation	104,018				104,018
Central Services	40,213	6,000			46,213
Noninstructional Services					
Extracurricular Activities	93,577	104,827			198,404
Capital Outlay	2,240				2,240
Debt Service			109,458		109,458
Total Cash Disbursements	3,085,174	256,249	110,880	8,528	3,460,831
Cash Receipts Over (Under)					
Cash Disbursements	(48,992)	(4,273)	(8,410)	42,042	(19,633)
Other Sources (Uses):					
Proceeds from Sale of Fixed Assets	44				44
Transfers-In		826			826
Advances-In		9,982			9,982
Refund of Prior Year Expenditures	35				35
Advances-Out	(9,982)				(9,982)
Refund of Prior Year Receipts	(375)	(375)			(750)
Other Miscellaneous Uses of Funds		(10,000)			(10,000)
Total Other Sources (Uses)	(10,278)	433			(9,845)
Cash Receipts and Other Sources Over (Under)					
Cash Disbursements and Other Uses	(59,270)	(3,840)	(8,410)	42,042	(29,478)
Fund Cash Balances at Beginning of Year	1,116,158	58,438	353,359	40,692	1,568,647
Fund Cash Balances at End of Year	\$1,056,888	\$54,598	\$344,949	\$82,734	\$1,539,169

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Proprietary Fund Type		Fiduciary Funds	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	Agency	
Operating Cash Receipts				
Earnings on Investments		\$154		\$154
Food Services	\$103,479			103,479
Extracurricular Activities			\$57,570	57,570
Classroom Materials & Fees	18,278			18,278
Total Operating Cash Receipts	121,757	154	57,570	179,481
Operating Cash Disbursements				
Salaries	38,050			38,050
Fringe Benefits	15,751			15,751
Purchased Services	1,599		28,592	30,191
Materials and Supplies	69,910		22,930	92,840
Capital Outlay	4,354			4,354
Other Objects	817	500	3,200	4,517
Total Operating Cash Disbursements	130,481	500	54,722	185,703
Operating Cash Receipts Over(Under) Operating Cash Disbursements	(8,724)	(346)	2,848	(6,222)
Non-Operating Receipts				
Miscellaneous	4,940			4,940
Federal and State Subsidies	14,971			14,971
Refund of Prior Years Expenditures	46			46
Total Non-Operating Receipts	19,957			19,957
Operating and Nonoperating Cash Receipts Over(Under) Operating Cash Disbursements Before Transfers	11,233	(346)	2,848	13,735
Transfers-Out			(826)	(826)
Net Receipts Over/(Under) Disbursements	11,233	(346)	2,022	12,909
Fund Cash Balances at Beginning of Year	64,575	10,600	10,592	85,767
Fund Cash Balances at End of Year	\$75,808	\$10,254	\$12,614	\$98,676

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Fund Types/Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$2,892,386	\$3,036,261	\$143,875
Special Revenue Funds	283,190	252,802	(30,388)
Debt Service Funds	100,464	102,470	2,006
Capital Project Funds	57,025	50,570	(6,455)
Proprietary:			
Enterprise Funds	140,835	141,714	879
Fiduciary:			
Nonexpendable Trust Fund	153	154	1
Agency Fund	57,172	57,570	398
Total (Memorandum Only)	<u>\$3,531,225</u>	<u>\$3,641,541</u>	<u>\$110,316</u>

The notes to the financial statements are an integral part of this statement.

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding At 6/30/04	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$110,039	\$3,188,949	\$3,298,988	\$3,085,549	\$78,593	\$3,164,142	\$134,846
Special Revenue Funds	3,708	301,293	305,001	266,624	8,428	275,052	29,949
Debt Service Fund	298	111,800	112,098	110,880	100	110,980	1,118
Capital Project Funds	149	27,300	27,449	8,528	3,050	11,578	15,871
Proprietary:							
Enterprise Funds	5,743	128,410	134,153	130,481	2,980	133,461	692
Fiduciary:							
Nonexpendable Trust Fund	500	500	1,000	500	500	1,000	
Agency Fund	430	58,187	58,617	55,548		55,548	3,069
Total (Memorandum Only)	<u>\$120,867</u>	<u>\$3,816,439</u>	<u>\$3,937,306</u>	<u>\$3,658,110</u>	<u>\$93,651</u>	<u>\$3,751,761</u>	<u>\$185,545</u>

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District was established through the consolidation of existing land areas and school districts. The District serves an area of approximately thirty-four square miles. It is located in Auglaize County. The District is the 597th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by twelve classified employees, thirty-seven certified teaching personnel, and five administrative employees who provide services to 455 students and other community members. The District currently operates one school building.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For New Knoxville Local School District, this includes general operations, food service, and student related activities of the District.

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

The District participates in four jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 9 and 10 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03 (B) the District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the District chose (for audit purposes) to present its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balance group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds - The 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).

2. Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Fund Type

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding fiscal year.

Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2003 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records.

E. Unpaid Vacation and Sick Leave

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

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee 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 Statement No. 3, "*Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*".

At fiscal year end, the carrying amount of the District's deposits was \$616,883 and the bank balance was \$645,303. Of the bank balance, \$111,650 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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 District's name. The District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$912,804	\$912,804
	\$912,804	912,804
STAR Ohio		108,158
Totals		\$1,020,962

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. PROPERTY TAXES (Continued)

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Auglaize and Shelby Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$36,645,770	88.95%	\$37,206,940	90.54%
Public Utility	1,082,640	2.63	1,050,850	2.56
Tangible Personal	3,467,720	8.42	2,834,596	6.90
Total Assessed Value	<u>\$41,196,130</u>	<u>100.00%</u>	<u>\$41,092,386</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.65		\$50.65	

5. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the District contracted for the following insurance coverage provided by the Indiana National Insurance Company.

General Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	9,850,000
Boiler and Machinery	9,725,000
Equipment Floater	510,000
Automobile Liability	1,000,000
Excess Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The District participates in the Mercer Auglaize School Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The District pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. RISK MANAGEMENT

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan.

The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

6. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$198,406, \$192,556, and \$137,769, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$3,885 made by the District and \$6,509 made by plan members.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$30,635, \$27,662, and \$17,199, respectively; 43 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

7. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

Benefit provisions and the obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount was \$15,262.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 million at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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 of the premium.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$24,500. For the District, the amount to fund health care benefits, including the surcharge, was \$21,714 for fiscal year 2004. 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, 2004 were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

8. LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2004 were as follows:

General Long-Term Obligations	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
1998 High School Building				
Serial Bonds 4.00 - 5.00%	\$655,000	\$0	\$15,000	\$640,000
Term Bonds 5.125%	1,235,000	0	0	1,235,000
Capital Appreciation Bonds	39,768	0	0	39,768
Capital Appreciation Bond Accretion	39,167	10,932	0	50,099
Total General Obligation Bonds	<u>\$1,968,935</u>	<u>\$10,932</u>	<u>\$15,000</u>	<u>\$1,964,867</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. LONG-TERM OBLIGATIONS (Continued)

High School General Obligation Bonds - On March 20, 1998, the District issued \$1,999,768 in voted general obligation bonds for constructing an addition to their existing instructional building. The bond issue includes serial, term, and capital appreciation bonds, in the amount of \$725,000, \$1,235,000, and \$39,768, respectively. The bonds were issued for a twenty-seven year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1 in each of the years 2016 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$115,000
2017	120,000
2018	125,000
2019	135,000
2020	140,000
2021	145,000
2022	155,000
2023	160,000

The serial bonds maturing after December 1, 2008, are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 1, 2008, at redemption prices equal to the following percentages of the principal amount redeemed plus accrued interest to the date fixed for redemption.

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2008 through November 30, 2009	101%
December 1, 2009 and thereafter	100

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount for the bonds is \$345,000. For fiscal year 2004, \$10,932 was accreted for a total bond value of \$89,867.

The District's overall debt margin was \$2,134,920 with an unvoted debt margin of \$41,092 at June 30, 2004.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2005	\$25,000	\$30,281	\$0	\$63,293
2006	25,000	29,156	0	63,294
2007	40,000	27,667	0	63,294
2008	45,000	25,701	0	63,294
2009	80,000	22,775	0	63,294
2010-2014	425,000	43,488	0	316,469
2015-2019	0	0	360,000	289,306
2020-2024	0	0	735,000	133,378
2025	0	0	140,000	3,588
Totals	<u>\$640,000</u>	<u>\$179,068</u>	<u>\$1,235,000</u>	<u>\$1,059,210</u>

Fiscal Year Ending	General Obligation Bonds Capital Appreciation	
	Principal	Interest
	2005	\$0
2006	0	0
2007	0	0
2008	0	0
2009	0	0
2010-2014	15,007	99,993
2015-2019	24,761	205,239
Totals	<u>\$39,768</u>	<u>\$305,232</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

9. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from Krista Hart, Auglaize County Educational Service Center, 520 Industrial Drive, Wapakoneta, Ohio 45895.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

D. Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby 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 school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2004, the District paid \$21,887 to WOCO for various services. Financial information can be obtained from Sonny Ivey, who serves as Director, 129 East Court Street, Sidney, Ohio 45365.

10. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

The District participates in a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. INSURANCE POOLS (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio, 43614.

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

11. SET ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2004, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2004.

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2003	\$23,912	\$9,810	\$13,663
Current Year Set Aside Requirement	65,710	65,710	0
Current Year Offsets	0	(40,120)	0
Qualifying Expenditures	(54,749)	(34,819)	0
Balance June 30, 2004	\$34,873	\$581	\$13,663

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts					
Taxes	\$1,049,204		\$106,907	\$36,171	\$1,192,282
Tuition	4,260				4,260
Intergovernmental	1,870,958	\$84,290	12,887	5,333	1,973,468
Interest	28,415				28,415
Extracurricular Activities	5,924	101,854			107,778
Miscellaneous	31,696				31,696
Total Cash Receipts	2,990,457	186,144	119,794	41,504	3,337,899
Cash Disbursements					
Current:					
Instruction:					
Regular	1,610,154	11,910		9,857	1,631,921
Special	101,849	46,611			148,460
Vocational	2,469				2,469
Support Services:					
Pupils	71,578	4,553			76,131
Instruction	165,236			7,925	173,161
Board of Education	26,765				26,765
Administration	396,787				396,787
Fiscal	120,655		2,215	749	123,619
Operation and Maintenance	331,633			100,000	431,633
Transportation	189,497				189,497
Central Services	43,456			698	44,154
Noninstructional Services					
Extracurricular Activities	92,645	103,777			196,422
Capital Outlay	14,423				14,423
Debt Service			115,214		115,214
Total Cash Disbursements	3,167,147	166,851	117,429	119,229	3,570,656
Cash Receipts Over (Under)					
Cash Disbursements	(176,690)	19,293	2,365	(77,725)	(232,757)
Other Sources (Uses):					
Proceeds from Sale of Fixed Assets	2,628				2,628
Advances-In	7,694				7,694
Transfers-In		3,000			3,000
Refund of Prior Year Expenditures	13,055				13,055
Transfers-Out	(3,000)				(3,000)
Advances-Out		(7,694)			(7,694)
Refund of Prior Year Receipts		(30)			(30)
Other Miscellaneous Use of Funds		(6,389)			(6,389)
Total Other Sources (Uses)	20,377	(11,113)			9,264
Cash Receipts and Other Sources Over (Under)					
Cash Disbursements and Other Uses	(156,313)	8,180	2,365	(77,725)	(223,493)
Fund Cash Balances at Beginning of Year	1,272,471	50,258	350,994	118,417	1,792,140
Restated See Note 3					
Fund Cash Balances at End of Year	\$1,116,158	\$58,438	\$353,359	\$40,692	\$1,568,647

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Type		Fiduciary Funds	Totals (Memorandum Only)
	Enterprise	Non-Expendable Trust	Agency	
Operating Cash Receipts				
Food Services	\$100,446			\$100,446
Extracurricular Activities			\$68,590	68,590
Earnings on Investments		\$367		367
Classroom Materials & Fees	20,757			20,757
Miscellaneous		331		331
Total Operating Cash Receipts	121,203	698	68,590	190,491
Operating Cash Disbursements				
Salaries	37,166			37,166
Fringe Benefits	14,800			14,800
Purchased Services	1,655		38,404	40,059
Materials and Supplies	62,080		29,368	91,448
Capital Outlay	3,950			3,950
Other Objects	506	750		1,256
Total Operating Cash Disbursements	120,157	750	67,772	188,679
Operating Cash Disbursements	1,046	(52)	818	1,812
Non-Operating Receipts				
Federal and State Subsidies	13,404			13,404
Total Non-Operating Receipts	13,404			13,404
Operating and Nonoperating Cash Receipts Over(Under) Operating Cash Disbursements	14,450	(52)	818	15,216
Net Receipts Over/(Under) Disbursements	14,450	(52)	818	15,216
Fund Cash Balances at Beginning of Year	50,125	10,652	9,774	70,551
Fund Cash Balances at End of Year	\$64,575	\$10,600	\$10,592	\$85,767

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$2,999,634	\$3,006,140	\$6,506
Special Revenue Funds	204,160	189,144	(15,016)
Debt Service Funds	118,070	119,794	1,724
Capital Project Funds	42,626	41,504	(1,122)
Proprietary:			
Enterprise Funds	134,650	134,607	(43)
Fiduciary:			
Nonexpendable Trust Fund	698	698	
Agency Fund	67,470	68,590	1,120
Total (Memorandum Only)	<u>\$3,567,308</u>	<u>\$3,560,477</u>	<u>(\$6,831)</u>

The notes to the financial statements are an integral part of this statement.

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding At 6/30/03	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$148,251	\$3,314,307	\$3,462,558	\$3,170,147	\$110,039	\$3,280,186	\$182,372
Special Revenue Funds	8,905	202,534	211,439	173,270	3,708	176,978	34,461
Debt Service Fund		117,740	117,740	117,429	298	117,727	13
Capital Project Funds	191	124,864	125,055	119,229	149	119,378	5,677
Proprietary:							
Enterprise Funds	4,404	148,300	152,704	120,157	5,743	125,900	26,804
Fiduciary:							
Nonexpendable Trust Fund	750	750	1,500	750	500	1,250	250
Agency Fund		68,898	68,898	67,772	430	68,202	696
Total (Memorandum Only)	<u>\$162,501</u>	<u>\$3,977,393</u>	<u>\$4,139,894</u>	<u>\$3,768,754</u>	<u>\$120,867</u>	<u>\$3,889,621</u>	<u>\$250,273</u>

The notes to the financial statements are an integral part of this statement.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District was established through the consolidation of existing land areas and school districts. The District serves an area of approximately thirty-four square miles. It is located in Auglaize County. The District is the 601st largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by thirteen classified employees, thirty-seven certified teaching personnel, and five administrative employees who provide services to 463 students and other community members. The District currently operates one school building.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For New Knoxville Local School District, this includes general operations, food service, and student related activities of the District.

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

The District participates in four jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03 (B) the District prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the District chose (for audit purposes) to present its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

B. Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balance group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of funds are as follows:

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

Debt Service Funds - The debt service funds are used to account for the accumulation of resources and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds - The 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).

2. Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector.

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Fund Type

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust, non-expendable trust, and agency funds.

C. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

The County Budget Commission certifies its actions to the District by March 1. As part of this certification, the District receives the official certificates of estimated resources which states the projected receipts of each fund. On or about July 1 this certificate is amended to include any unencumbered balances from the preceding fiscal year.

Prior to June 30, the District must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

To improve cash management, all cash received by the District Treasurer is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through District records.

E. Unpaid Vacation and Sick Leave

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

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This change had the following effect on fund balances as previously reported:

Fund	Fund Balance Retained Earnings 6/30/2002	Accrual Adjustments	Fund Reclass	Restated Fund Balance 7/1/2002
General	\$1,094,799	\$204,249	\$(26,577)	\$1,272,471
Special Revenue	62,581	11,225	(23,548)	50,258
Debt Service	358,943	(7,949)		350,994
Capital Project	122,415	(3,998)		118,417
Enterprise	0		50,125	50,125
Non Expendable				
Trust	10,268	384		10,652
Agency	9,774			9,774
Total	<u>\$1,658,780</u>	<u>\$203,911</u>	<u>\$0</u>	<u>\$1,862,691</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee 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 Statement No. 3, *“Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”*.

At fiscal year end, the carrying amount of the District’s deposits was \$606,896 and the bank balance was \$610,930. Of the bank balance, \$112,410 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

The District’s investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the 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 District’s name. The District’s investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$940,442	\$940,442
	\$940,442	940,442
STAR Ohio		107,076
Totals		\$1,047,518

5. PROPERTY TAXES

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2001, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Auglaize and Shelby Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties 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.

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

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$33,899,450	87.53%	\$36,645,770	88.95%
Public Utility	1,117,600	2.89	1,082,640	2.63
Tangible Personal	3,711,330	9.58	3,467,720	8.42
Total Assessed Value	<u>\$38,728,380</u>	<u>100.00%</u>	<u>\$41,196,130</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$52.35		\$50.65	

The high school bond levy was reduced by \$1.7 mills in fiscal year 2003.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the District contracted for the following insurance coverage provided by the Utica National Insurance Company.

General Liability	
Per Occurrence	\$1,000,000
Aggregate	5,000,000
Building and Contents	9,850,000
Boiler and Machinery	9,725,000
Equipment Floater	777,255
Automobile Liability	1,000,000
Excess Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

The District participates in the Mercer Auglaize School Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The District pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of 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 fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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 salary and the District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$192,556, \$137,769, and \$133,171, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$3,603 made by the District and \$5,526 made by plan members.

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the District was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$27,662, \$17,199, and \$13,026, respectively; 44 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2003, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount was \$14,812.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 million at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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 of the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 was established at \$14,500. For the District, the amount to fund health care benefits, including the surcharge, was \$26,515 for fiscal year 2003.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

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, 2003, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

9. LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2003 were as follows:

General Long-Term Obligations	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
1998 High School Building				
Serial Bonds 4.00 - 5.00%	\$ 675,000	\$ 0	\$20,000	\$ 655,000
Term Bonds 5.125%	1,235,000	0	0	1,235,000
Capital Appreciation Bonds	39,768	0	0	39,768
Capital Appreciation Bond Accretion	29,565	9,602	0	39,167
Total General Obligation Bonds	\$1,979,333	\$ 9,602	\$20,000	\$1,968,935

High School General Obligation Bonds - On March 20, 1998, the District issued \$1,999,768 in voted general obligation bonds for constructing an addition to their existing instructional building. The bond issue includes serial, term, and capital appreciation bonds, in the amount of \$725,000, \$1,235,000, and \$39,768, respectively. The bonds were issued for a twenty-seven year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the District. The mandatory redemption is to occur on December 1 in each of the years 2016 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2016	\$115,000
2017	120,000
2018	125,000
2019	135,000
2020	140,000
2021	145,000
2022	155,000
2023	160,000

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. LONG-TERM OBLIGATIONS

The serial bonds maturing after December 1, 2008, are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 1, 2008, at redemption prices equal to the following percentages of the principal amount redeemed plus accrued interest to the date fixed for redemption.

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2008 through November 30, 2009	101%
December 1, 2009 and thereafter	100

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount for the bonds is \$345,000. For fiscal year 2003, \$9,602 was accreted for a total bond value of \$78,935.

The District's overall debt margin was \$2,137,457 with an unvoted debt margin of \$41,196 at June 30, 2003.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2004	\$15,000	\$31,164	\$0	\$63,294
2005	25,000	30,281	0	63,293
2006	25,000	29,156	0	63,294
2007	40,000	27,667	0	63,293
2008	45,000	25,701	0	63,294
2009-2013	505,000	66,263	0	316,459
2014-2018	0	0	235,000	304,553
2019-2023	0	0	700,000	170,150
2024-2025	0	0	300,000	14,863
Totals	<u>\$655,000</u>	<u>\$210,232</u>	<u>\$1,235,000</u>	<u>\$1,122,493</u>

Fiscal Year Ending	General Obligation Bonds Capital Appreciation	
	Principal	Interest
	2004	\$0
2005	0	0
2006	0	0
2007	0	0
2008	0	0
2009-2013	0	0
2014-2018	39,768	305,232
Totals	<u>\$39,768</u>	<u>\$305,232</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. SET ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2003, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2003.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2002	\$23,390	\$60,401	\$13,663
Current Year Set Aside Requirement	63,653	63,653	0
Current Year Offsets	0	(40,304)	0
Qualifying Expenditures	(63,131)	(73,940)	0
Balance June 30, 2003	<u>\$23,912</u>	<u>\$9,810</u>	<u>\$13,663</u>

11. JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from Krista Hart, Auglaize County Educational Service Center, 520 Industrial Drive, Wapakoneta, Ohio 45895.

B. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents.

The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

D. Western Ohio Computer Organization

The District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby 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 school districts.

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2003, the District paid \$15,911 to WOCO for various services. Financial information can be obtained from Sonny Ivey, who serves as Director, 129 East Court Street, Sidney, Ohio 45365.

12. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

The District participates in a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants.

Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio, 43614.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. INSURANCE POOLS (Continued)

B. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by a five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

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

14. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 District at June 30, 2003.

B. Litigation

There are currently no matters in litigation with the District as defendant.

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Auditor of State Betty Montgomery

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

New Knoxville Local School District
Auglaize County
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited the financial statements of New Knoxville Local School District, Auglaize County, (the District), as of and for the years ended June 30, 2004 and June 30, 2003 and have issued our report thereon dated February 28, 2005, wherein we noted that the District implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially effect 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* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated February 28, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

**Internal Control Over Financial Reporting
(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

We also noted certain 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 February 28, 2005.

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



Betty Montgomery
Auditor of State

February 28, 2005

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004 AND 2003

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

FINDING NUMBER 2004-001

Proper Certification of Funds

Ohio Rev. Code Section 5705.41 (D) states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

An exception to this requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant ("Then and Now".)

The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district. Amounts of less than \$1,000 (\$3,000 after April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

In thirty-five percent of the transactions tested for the audit period, the invoice was dated prior to the purchase order date, and the exception noted above was not utilized. The lack of proper certifications could result in the obligation of funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations. Also, without the proper review and approval of purchase orders, the possibility exists for errors and/or irregularities to occur without being detected during the normal course of business.

Purchase orders, as a certifying medium, should be prepared before vendor invoice dates (unless there is then and now certification) and certified by the Treasurer and Superintendent. The District should establish procedures for obtaining certification prior to incurring an obligation, and/or for subsequent certification and approval as provided by the exception noted above. Certification can be accomplished by initialing and dating the purchase orders beside the computer generated signatures.

FINDING NUMBER 2004-002

Proper Approval of Expenditures

During the annual organizational meeting, the Board delegates the responsibility of purchasing agent to the superintendent, who is required to review and approve all expenditures under \$3,000. Expenditures in excess of \$3,000 are approved by the Board of Education. Fifty-nine percent of expenditures tested did not have the Superintendent's initials included on the purchase order to show that he had reviewed and approved the purchase. In addition, when making purchases, requisition forms are to be completed by department heads and/or teachers. The requisitions are to be signed and dated by the teacher or department head and forwarded to the Treasurer, Principal, and/or Athletic Director for their approval before the expenditure is made. Thirty-five percent of tested expenditures did not have a properly completed/approved requisition form.

The lack of proper review and approval of purchase obligations, allows the possibility of unauthorized or unallowable payments, and errors and/or irregularities to occur without being detected by personnel during the normal course of business.

The Superintendent (purchasing agent) should adhere to the delegated responsibility which requires the approval of purchases by the superintendent. This review and approval process could be accomplished by initialing and dating purchase orders. In addition, the requesting individual should fill out a requisition before the purchase is made. All requisitions should then be approved by the appropriate individual prior to entering into purchase obligations.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u>; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.41(D)	No	Repeated as finding 2004-001.
2002-002	Approval of expenditures	No	Repeated as finding 2004-002.



**Auditor of State
Betty Montgomery**

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800-282-0370

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE 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
APRIL 12, 2005**