

East Knox Local School District

Audited Financial Statements

June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
East Knox Local School District
23201 Coshocton Road
P.O. Box 68
Howard, Ohio 43028

We have reviewed the *Independent Auditor's Report* of the East Knox Local School District, Knox County, prepared by Rea & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 30, 2006

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

JUNE 30, 2005

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

February 1, 2006

To the Board of Education
East Knox Local School District
Howard, OH 43028

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 audits provide a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This 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, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, as of June 30, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we also have issued our report dated February 1, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Government's basic financial statements. The federal awards expenditure schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

EAST KNOX LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)*

This discussion and analysis of the East Knox Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for 2005 are as follows:

General Revenues accounted for \$8,636,349 in revenue or 83% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,731,830 or 17% of total revenues of \$10,361,179.

Total program expenses were \$10,057,372.

In total, net assets were \$4,867,382.

Outstanding bonded debt decreased from \$3,290,000 to \$3,055,000 through payment of bond principal.

Using this Annual Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the East Knox Local School District, the general fund and the permanent improvement fund are by far the most significant funds.

The notes to the financial statements are an integral part of the district-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursements.

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Essentially, the only assets reported on this strictly cash receipts and disbursement basis presentation in a statement of net assets will be cash, cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents.

Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

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

The government-wide financial statements of the School District reflect the following category for its activities:

- ***Governmental Activities***- Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide more detailed information about the School District's most significant funds, not the School District as a whole. Funds are accounting devices that the School District uses to keep track of specific sources of funding and spending for particular purposes. Although the School District uses several funds to account for financial transactions, the most significant funds are the General Fund and the Debt Service Fund.

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Governmental Funds- Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds- The School District is the trustee, or fiduciary, for various student managed activity programs. All of the School District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

This year's financial statements were prepared on the cash basis utilizing the GASB 34 format. The 2004 financial statements were prepared on the cash basis but did not include the implementation of GASB 34. As a result, attempting to compare this year's data to last year's would be misleading to the reader.

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$4,867,382	\$ 4,556,573
Total Assets	\$4,867,382	\$ 4,556,573
 Net Assets		
Restricted for:		
Debt Service	634,004	582,123
Capital Outlay	81,190	89,093
Set Asides	45,881	57,890
Unrestricted	4,106,307	3,827,467
Total Net Assets	\$4,867,382	\$4,556,573

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Net assets of governmental activities increased \$310,807 or seven percent during 2005. The primary reasons contributing to the increase in net assets are:

- The Board of Education's goals to keep expenditures within available revenues.
- The School District is planning for the operational costs associated with a new, third school building, including staff, utilities and maintenance.

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, receipts and disbursements comparisons to fiscal year 2004 are not available. This table will present two fiscal years side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
	<u>2005</u>
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$ 624,051
Operating Grants and Contributions	1,081,609
Capital Grants and Contributions	26,170
Total Program Receipts	<u>1,731,830</u>
General Receipts:	
Property and Other Local Taxes	4,283,011
Grants and Entitlements Not Restricted to Specific Programs	4,218,369
Interest	86,356
Miscellaneous	48,613
Total General Receipts	<u>8,636,349</u>
Total Receipts	<u>10,368,179</u>
Disbursements:	
Instruction	6,028,264
Support Services	3,085,433
Food Service	358,525
Extracurricular Activities	202,959
Capital Outlay	9,948
Debt Service:	
Principal	271,232
Interest	101,011
Total Disbursements	<u>10,057,372</u>
Increase in Net Assets	310,807
Net Assets, July 1, 2004	4,556,575
Net Assets, June 30, 2005	<u>\$ 4,867,382</u>

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Program receipts represent only 17 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as open enrollment, tuition, school fees, food service and extracurricular (athletics) activity receipts.

General receipts represent 83 percent of the School District's total receipts, and of this amount, over 50 percent are local taxes. State and federal grants and entitlements make up the balance of the School District's general receipts (49 percent). Other receipts are insignificant and somewhat unpredictable receipt sources.

Governmental Activities

If you look at the Statement of Activities on page 11, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services, which account for 60 and 31 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	2005	
	Total Cost	Net Cost
	Of Services	of Services
Instruction	\$ 6,028,264	\$ 4,798,836
Support Services:		
Pupil and Instructional Staff	511,194	445,626
Board of Education, Administration and Fiscal	1,151,596	1,151,596
Operation of Maintenance and Plant	727,021	725,829
Pupil Transportation	695,622	679,007
Food Service	358,525	16,912
Extracurricular Activities	202,959	140,501
Capital Outlay	9,948	(5,008)
Debt Service:		
Principal	271,232	271,232
Interest	101,011	101,011
	<u>101,011</u>	<u>101,011</u>
Total Expenses	<u>\$ 10,057,372</u>	<u>\$ 8,325,542</u>

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The dependence upon tax receipts and unrestricted State entitlements for governmental activities is apparent. The community, as a whole, is by far the primary support for the East Knox Local School District.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2005, the School District amended its General Fund budget several times to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Debt

At June 30, 2005, the School District had \$3,055,000 in bonds outstanding with \$230,000 due within one year. See Note 9 for additional details. During fiscal year 2005, \$235,000 of general obligation bonds were retired.

Current Issues

The East Knox Local School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on local taxpayer support. The most recent levy passed by the voters was a \$600,000 Emergency Levy passed in November 2004 for five years.

Real estate tax collections have shown steady increases, but the lack of business industry in the area has kept tangible personal property collections relatively small and insignificant as compared to real estate taxes. The overall receipts generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become 0.5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of receipt growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 41% of receipts for governmental activities for the East Knox Local School District in fiscal year 2005.

The East Knox Local School District does anticipate some growth in State receipts during the next few years, but that is mainly due to estimates of enrollment growing approximately 4%-5% each year. The concern is the State Legislative approval of the biennial budget, effective July 1, 2005 may have a negative impact on the School District in the near future.

EAST KNOX LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2005
(Unaudited)

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

Current Building Issues

The School District is currently in the planning stage of proposing to voters in November 2006 a new school building to be built on the land adjacent to the Junior/Senior High Building. Planning efforts include community engagement, hiring an architect and developing facility needs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gene Berry, Treasurer of East Knox Local School District, P.O. Box 68, Howard, Ohio 43028.

East Knox Local School District
Statement of Net Assets - Cash Basis
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,867,382</u>
<i>Total Assets</i>	<u><u>\$ 4,867,382</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$ 81,190
Debt Service	634,004
Set Asides	45,881
Unrestricted	<u>4,106,307</u>
<i>Total Net Assets</i>	<u><u>\$ 4,867,382</u></u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2005

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 3,495,019	\$ 300,321	\$ 75,724	\$ 9,555	\$ (3,109,419)
Special	1,264,341	2,143	823,398	0	(438,800)
Vocational	106,998	0	18,287	0	(88,711)
Other	1,161,906	0	0	0	(1,161,906)
Support Services:					
Pupil	361,744	40,508	6,101	0	(315,135)
Instructional Staff	149,450	0	18,959	0	(130,491)
Board of Education	21,304	0	0	0	(21,304)
Administration	798,199	0	0	0	(798,199)
Fiscal	332,093	0	0	0	(332,093)
Operation and Maintenance of Plant	727,021	0	1,192	0	(725,829)
Pupil Transportation	695,622	0	0	16,615	(679,007)
Operation of Food Services	358,525	221,732	119,881	0	(16,912)
Extracurricular Activities	202,959	59,347	3,111	0	(140,501)
Capital Outlay	9,948	0	14,956	0	5,008
Debt Service:					
Principal	271,232	0	0	0	(271,232)
Interest	101,011	0	0	0	(101,011)
<i>Total Governmental Activities</i>	<u>\$ 10,057,372</u>	<u>\$ 624,051</u>	<u>\$ 1,081,609</u>	<u>\$ 26,170</u>	(8,325,542)
General Receipts					
Property Taxes Levied for:					
					3,810,267
					346,606
					126,138
					4,218,369
					86,356
					48,613
					<u>8,636,349</u>
					310,807
					4,556,575
					<u>\$ 4,867,382</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2005

	General	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,935,403	\$ 634,004	\$ 297,975	\$ 4,867,382
<i>Total Assets</i>	<u>\$ 3,935,403</u>	<u>\$ 634,004</u>	<u>\$ 297,975</u>	<u>\$ 4,867,382</u>
Fund Balances				
Reserved for Encumbrances	\$ 235,686	\$ 0	\$ 52,868	\$ 288,554
Reserved for Textbooks/Instructional Materials	17,948	0	0	17,948
Unreserved:				
Undesignated, Reported in:				
General Fund	3,681,769	0	0	3,681,769
Special Revenue Funds	0	0	174,879	174,879
Debt Service Fund	0	634,004	0	634,004
Capital Projects Funds	0	0	70,228	70,228
<i>Total Fund Balances</i>	<u>\$ 3,935,403</u>	<u>\$ 634,004</u>	<u>\$ 297,975</u>	<u>\$ 4,867,382</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Cash Receipts, Disbursements and Changes in Cash Balance Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$ 3,810,267	\$ 346,606	\$ 126,138	\$ 4,283,011
Intergovernmental	4,508,458	43,831	764,213	5,316,502
Interest	83,459	285	2,612	86,356
Tuition and Fees	297,359	0	37,924	335,283
Extracurricular Activities	0	0	64,074	64,074
Contributions and Donations	3,111	0	0	3,111
Charges for Services	2,363	0	219,479	221,842
Miscellaneous	8,029	0	22,534	30,563
<i>Total Receipts</i>	<u>8,713,046</u>	<u>390,722</u>	<u>1,236,974</u>	<u>10,340,742</u>
Disbursements				
Current:				
Instruction:				
Regular	3,421,358	0	73,661	3,495,019
Special	896,350	0	367,991	1,264,341
Vocational	106,998	0	0	106,998
Other	1,161,906	0	0	1,161,906
Support Services:				
Pupil	310,740	0	51,004	361,744
Instructional Staff	82,627	0	66,823	149,450
Board of Education	21,304	0	0	21,304
Administration	719,976	0	78,223	798,199
Fiscal	312,216	8,476	11,401	332,093
Operation and Maintenance of Plant	631,373	0	95,648	727,021
Pupil Transportation	678,977	0	16,645	695,622
Operation of Food Services	135	0	358,390	358,525
Extracurricular Activities	127,888	0	75,071	202,959
Capital Outlay	0	0	9,948	9,948
Debt Service:				
Principal Retirement	1,307	235,000	34,925	271,232
Interest and Fiscal Charges	10	95,366	5,635	101,011
<i>Total Disbursements</i>	<u>8,473,165</u>	<u>338,842</u>	<u>1,245,365</u>	<u>10,057,372</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>239,881</u>	<u>51,880</u>	<u>(8,391)</u>	<u>283,370</u>
Other Financing Sources (Uses)				
Advances In	14,900	0	5,632	20,532
Advances Out	(5,632)	0	(14,900)	(20,532)
Refund of Prior Year Expenditures	25,604	0	1,833	27,437
<i>Total Other Financing Sources (Uses)</i>	<u>34,872</u>	<u>0</u>	<u>(7,435)</u>	<u>27,437</u>
<i>Net Change in Fund Balances</i>	274,753	51,880	(15,826)	310,807
<i>Fund Balances Beginning of Year</i>	<u>3,660,650</u>	<u>582,124</u>	<u>313,801</u>	<u>4,556,575</u>
<i>Fund Balances End of Year</i>	<u>\$ 3,935,403</u>	<u>\$ 634,004</u>	<u>\$ 297,975</u>	<u>\$ 4,867,382</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$ 4,037,800	\$ 3,810,351	\$ 3,810,267	\$ (84)
Intergovernmental	4,181,662	4,510,797	4,508,458	(2,339)
Interest	50,000	80,420	83,459	3,039
Tuition and Fees	226,000	297,424	297,359	(65)
Contributions and Donations	0	3,111	3,111	0
Charges for Services	1,300	2,300	2,363	63
Miscellaneous	1,800	3,400	3,529	129
<i>Total receipts</i>	<u>8,498,562</u>	<u>8,707,803</u>	<u>8,708,546</u>	<u>743</u>
Disbursements				
Current:				
Instruction:				
Regular	3,432,387	3,504,653	3,420,475	84,178
Special	1,075,829	981,317	896,350	84,967
Vocational	107,886	121,386	106,998	14,388
Other	1,294,227	1,183,741	1,161,906	21,835
Support Services:				
Pupil	381,427	369,358	310,740	58,618
Instructional Staff	78,163	100,095	82,627	17,468
Board of Education	31,204	22,000	21,304	696
Administration	855,294	820,311	719,976	100,335
Fiscal	318,847	341,047	312,216	28,831
Operation and Maintenance of Plant	620,185	752,819	631,373	121,446
Pupil Transportation	699,918	720,413	678,977	41,436
Operation of Non-Instructional Services	0	0	135	(135)
Extracurricular Activities	125,035	128,263	127,888	375
<i>Total Disbursements</i>	<u>9,020,402</u>	<u>9,045,403</u>	<u>8,470,965</u>	<u>574,438</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(521,840)</u>	<u>(337,600)</u>	<u>237,581</u>	<u>575,181</u>
Other Financing Sources (Uses)				
Transfers In	0	150,529	150,529	0
Transfers Out	(150,529)	(150,529)	(150,529)	0
Advances In	17,200	17,200	19,400	2,200
Advances Out	(25,000)	(25,000)	(7,832)	17,168
Other Financing Sources	20,000	25,600	25,604	4
<i>Total Other Financing Sources (Uses)</i>	<u>(138,329)</u>	<u>17,800</u>	<u>37,172</u>	<u>19,372</u>
<i>Net Change in Fund Balance</i>	(660,169)	(319,800)	274,753	594,553
<i>Fund Balance Beginning of Year</i>	<u>3,660,650</u>	<u>3,660,650</u>	<u>3,660,650</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 3,000,481</u>	<u>\$ 3,340,850</u>	<u>\$ 3,935,403</u>	<u>\$ 594,553</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 66,021
	<u>66,021</u>
Net Assets	
Unrestricted	\$ 66,021
	<u>66,021</u>

The accompanying notes are an integral part of the basic financial statements.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Knox Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local School District staffed by 47 certified teaching personnel and 76 non-certified support personnel to provide services to 1,815 students.

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

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

The School District is associated with the Tri-Rivers Education Computer Association which is a joint governed organization. Information about these organizations is presented in Note 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Following are the more significant of the School District's accounting policies:

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. 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). Differences between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities of the School district. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental type activity financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts and expenditures/disbursements. Funds are organized into two major categories: governmental. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Debt Service Fund	This fund accounts for receipts derived from levies used for the retirement of debt and related interest.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (continued)

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

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

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected receipts of each fund. Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the School District Treasurer.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (continued)

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of disbursements, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year disbursements for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

F. Accumulated 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 School District.

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash is received and payment of principal and interest are reported as disbursements when paid.

H. Intergovernmental Receipts

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in proprietary funds are recorded as receipts when the grant is received.

I. Inventory and Prepaid Items

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

J. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

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

M. Receipts and Expenditures

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District’s taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosure.” GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the School District’s financial statements.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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 School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

As of June 30, 2005, the District had \$280 in undeposited cash on hand which is included in the fund balance.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the District's deposits was \$4,525,861 and the bank balance was \$4,678,025. Of the bank balance, \$400,000 was covered by federal depository insurance and \$4,278,025 was uninsured. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at fair value. As of June 30, 2005, the district had the following investments:

	Value as of 06/30/05	% of Investment Total	Maturities	
			0-1 Year	1-5 Years
STAROhio	\$ 407,262	100%	\$ 407,262	\$ -
Total Investments	<u>\$ 407,262</u>	<u>100%</u>	<u>\$ 407,262</u>	<u>\$ -</u>

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2005 represent the collection of calendar year 2004 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2005 were levied after April 1, 2004 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 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 receipts received in Calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 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 School District prior to June 30.

The School District receives property taxes from Knox and Licking Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School 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. For fiscal year 2005, the School District contracted the Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$21,420,980 limit.

The School District has professional liability through the Ohio School Insurance Program with Selective Insurance Company of South Carolina. Professional liability protection was set at \$2,000,000 per single occurrence limit and \$4,000,000 aggregate with a \$1,000 deductible.

B. Workers' Compensation

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established 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 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$162,704, \$144,998, and \$83,840, respectively; 50 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for the fiscal years 2004 and 2003.

B. State Teachers Retirement System

The School 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 basic retirement and disability benefits based on eligible service credit 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 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

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

For the fiscal year ended June 30, 2004 (the latest information available), plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and East Knox Local School District are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for the fiscal years ended June 30, 2005, 2004, and 2003 were \$486,360, \$441,908, and \$393,512, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for the fiscal years 2004 and 2003.

C. Social Security System

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

NOTE 8 - POST EMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Plan or Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 8 - POST EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

At June 30, 2005, the employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay has been established at \$27,400. 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 disbursements. For the School District, the amount to fund health care benefits, including the surcharge, was \$57,067 for the fiscal year 2005.

Net health care costs for the year ending June 30, 2005 were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Restated Outstanding June 30, 2004	Additions	Deductions	Outstanding June 30, 2005
General Obligation Bonds				
Series 2004 1.5%-4.42% \$3,290,000	\$ 3,290,000	\$ 0	\$ 235,000	\$ 3,055,000
Capital Leases	107,030	0	36,232	70,798
	<u>\$ 3,397,030</u>	<u>\$ 0</u>	<u>\$ 271,232</u>	<u>\$ 3,125,798</u>

Capital lease outstanding balance at June 30, 2004, as previously reported, included a \$20,488 error and required restatement.

Outstanding general obligation bonds consist of school building construction. General obligation bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District.

A. Serial Bonds

The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5% TO 4.2%.

B. Capital Appreciation Bonds

The capital appreciation bonds mature December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The annual requirement to amortize all debt outstanding as of June 30, 2005, including interest payments of \$1,221,340 is as follows:

Year Ending June 30,	General Obligation Bond
2006	\$ 321,378
2007	316,778
2008	306,946
2009	306,253
2010	299,640
2011-2015	1,470,093
2016-2019	1,098,798
Total Principal and Interest	4,119,886
Less Interest	(1,064,886)
Total Principal	\$ 3,055,000

NOTE 10- CAPITALIZED LEASES

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

The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service disbursements in the financial statements.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease Obligation</u>
2006	\$ 40,560
2007	34,674
Total minimum lease payments	75,234
Less: Amount representing interest	(4,436)
Present value of minimum lease payments	\$ 70,798

NOTE 11 - STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 School District was also required to set aside money for budget stabilization.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 11 - STATUTORY RESERVES (Continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2005.

	Textbook Instructional Materials Reserve	Capital Improvement Reserve	Total
	<u> </u>	<u> </u>	<u> </u>
Set-Aside Reserve Balance as of June 30, 2004	\$ 41,846	\$ 0	\$ 41,846
Current Year Set-Aside Requirement	150,529	150,529	301,058
Current Year Offsets	0	(141,094)	(141,094)
Qualifying Disbursements	<u>(146,494)</u>	<u>(43,973)</u>	<u>(190,467)</u>
 Total	 <u>\$ 45,881</u>	 <u>\$ (34,538)</u>	 <u>\$ 11,343</u>
 Set-aside Balance Carried Forward FY 2006	 <u>\$ 45,881</u>	 <u>\$ 0</u>	 <u>\$ 45,881</u>
 Amount to Restrict for Set-Asides			 <u>\$ 45,881</u>

The School District had qualifying disbursements during the year that reduced the capital improvements reserve set-aside below zero. This extra amount may not be used to reduce the set-aside requirement of future years for the capital improvement reserve.

Negatives are therefore not presented as being carried forward to the next fiscal year for the other set-asides. The total reserve balance for the set-asides at the end of the fiscal year was \$45,881.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

A. Jointly governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Associations (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member schools districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$38,063 to TRECA during fiscal year 2005 for services.

B. Insurance Purchasing Pool

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2005

NOTE 13 - CONTINGENCIES

A. Grants

The School 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 School District at June 30, 2005.

B. 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 plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

February 1, 2006

To the Board of Education
East Knox Local School District
Howard, Ohio 43028

Independent Auditor's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated February 1, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-01. We also noted certain instances of noncompliance that we have reported to management of the School District in a separate letter dated February 1, 2006.

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

Rea & Associates, Inc.

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

February 1, 2006

To the Board of Education
East Knox Local School District
Howard, Ohio 43028

Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the East Knox Local School District (the "School District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2005. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the East Knox Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards - Non-GAAP Budgetary Basis

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District (the "School District") as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 1, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for 2005 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Rea & Associates, Inc.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Pass-Through Entity Number	CFDA Number	Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF EDUCATION:					
<i>Passed through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	\$ 696	\$ 28,876	\$ 0
	C1-S1-2005		264,025	262,812	0
Total Title I			264,721	291,688	0
Innovative Education Program Strategies	C2-S1-2004	84.298	3,266	4,979	0
	C2-S1-2005		457	0	0
Total Innovative Education Program Strategies			3,723	4,979	0
Special Education Grants to States:					
Part B- IDEA	6B-SF-2005	84.027	243,905	241,508	0
Austin Grant	6B-SA-2004		7,118	11,902	0
Total Special Education Grants to States			251,023	253,410	0
Safe & Drug Free Schools Grant	DR-S1-2004	84.186	351	3,974	0
	DR-S1-2005		2,015	2,015	0
Total Safe & Drug Free Schools Grant			2,366	5,989	0
Title II-A Improving Teacher Quality	CR-S1-2005	84.367	27,919	28,098	0
Title II-D Education Technology Grant	TJ-S1-2005	84.318	726	8,011	0
Total U. S. Department of Education			550,478	592,175	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
<i>(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)</i>					
Medical Assistance Program - Community Alternative Funding System (CAFS)	FY 2005	93.778	33,903	33,903	0
Medical Assistance Program - State Children's Health Insurance Program (SCHIP)	FY 2005	93.767	3,369	3,369	0
Total U.S. Department of Health and Human Services			37,272	37,272	0
U.S. DEPARTMENT OF AGRICULTURE:					
<i>Passed through Ohio Department of Education:</i>					
Nutrition Cluster:					
Food Distribution Program	N/A	10.550	0	0	32,856
National School Lunch Program	LL-P4-2004	10.555	116,384	116,384	0
Total US Department of Agriculture - Nutrition Cluster			116,384	116,384	32,856
Total Federal Financial Assistance			\$ 704,134	\$ 745,831	\$ 32,856

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2005

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: NUTRITION CLUSTER

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of the commodities received and disbursed. At June 30, 2005, the School District had no significant food commodities inventory. Reimbursement moneys are commingled with local receipts and state grants. It is assumed federal moneys are expended first.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Special Education Grants to States	CFDA #84.010 CFDA #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2005**

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

NONCOMPLIANCE

Finding Number	2005-001
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GAAP Reporting

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2005 the School District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America.	No	The District plans to continue on reporting the cash basis of accounting



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Betty Montgomery**

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EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2006**