

East Knox Local School District

Knox County, Ohio

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007

**BALESTRA, HARR & SCHERER, CPAs Inc**

CERTIFIED PUBLIC ACCOUNTANTS

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Mary Taylor, CPA  
Auditor of State

Board of Trustees  
East Knox Local School District  
23201 Coshocton Road  
PO Box 68  
Howard, Ohio 43028

We have reviewed the *Independent Auditor's Report* of the East Knox Local School District, Knox County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 18, 2007

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East Knox Local School District  
Knox County, Ohio

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**Independent Auditor's Report**

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Knox Local School District, Knox County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

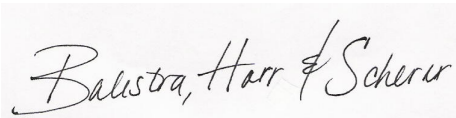
Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of East Knox Local School District, Knox County, as of June 30, 2007, and the respective changes in cash basis financial position and the budgetary comparison for the General Fund, for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

October 26, 2007

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

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This discussion and analysis of the East Knox Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the 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 District's financial performance.

***Financial Highlights***

Key financial highlights for 2007 are as follows:

General revenues accounted for \$36,949,313 in revenue or 94.56% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,126,473 or 5.44% of total revenues of \$39,075,786.

Total program expenses were \$26,926,123.

In total, net assets increased \$12,149,663.

Outstanding bonded debt increased from \$2,825,000 to \$12,544,986 due to the selling of bonds to fund the construction of a middle school, bus garage, existing building renovations, and a track.

***Using this Annual Report***

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's cash basis of accounting. 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 District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column.

***Basis of Accounting***

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.



East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

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***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2007, within the limitations of the cash basis accounting. The statement of net assets – cash-basis presents the cash balances and investments of the governmental activities of the District at years end. The statement of activities – cash-basis compares cash disbursements with program receipts for each District program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions.

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

- Governmental activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the District are categorized as governmental funds.

**Governmental Funds** - The District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The District's major governmental funds are the General, Debt Service, and Capital Projects Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

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

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

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*The School District as a Whole*

Table 1 provides a summary of the District's net assets for 2007 compared to 2006 on the cash basis of accounting.

(Table 1)  
**Net Assets**

	Governmental Activities	
	2007	2006*
<b>Assets</b>		
Cash and Cash Equivalents	\$ 11,381,009	\$ 5,159,426
Investments	5,928,080	0
Total Assets	\$17,309,089	\$ 5,159,426
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$ 12,347,526	\$ 111,704
Debt Service	958,690	737,139
Other Purposes	125,048	115,796
Unrestricted	3,877,825	4,194,787
Total Net Assets	\$17,309,089	\$5,159,426

\*Certain reclassifications were made to fiscal year 2006 figures for consistency between years.

Net assets of governmental activities increased \$12,149,663 during fiscal year 2007. As can be seen in Table 1, the majority of the increase is categorized as restricted for capital projects. The voting residents passed a bond issue in November 2006 to finance heating renovations and the construction of a middle school, bus garage, and track. The bond sale and a bond anticipation note issuance generated \$13,000,000 for these projects. The drastic increase in net assets can be attributed to the District receiving the bond sale money in fiscal year 2007 less some payments for early construction. The majority of the construction financial activity will take place in fiscal year 2008.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006:

(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2007	Governmental Activities 2006
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$711,325	\$631,025
Operating Grants and Contributions	1,360,743	1,285,432
Capital Grants and Contributions	54,405	48,976
Total Program Receipts	<u>2,126,473</u>	<u>1,965,433</u>
General Receipts:		
Property and Other Local Taxes	5,245,960	4,673,410
Grants and Entitlements Not Restricted to Specific Programs	4,718,421	4,729,263
Interest	707,374	203,185
Proceeds Note/Bond Sales	25,999,986	0
Premium on Debt Issue	221,596	0
Miscellaneous	55,976	27,451
Total General Receipts	<u>36,949,313</u>	<u>9,633,309</u>
Total Receipts	<u>39,075,786</u>	<u>11,598,742</u>
Disbursements:		
Instruction	7,285,576	6,485,953
Support Services	4,425,396	3,723,370
Food Service	445,339	465,633
Extracurricular Activities	303,340	250,167
Capital Outlay	652,998	19,638
Debt Service	13,813,474	361,937
Total Disbursements	<u>26,926,123</u>	<u>11,306,698</u>
Increase (Decrease) in Net Assets	12,149,663	292,044
Net Assets, Beginning of Year	5,159,426	4,867,382
Net Assets, End of Year	<u>\$17,309,089</u>	<u>\$5,159,426</u>

Total receipts increased dramatically in fiscal year 2007. The increase can be attributed to the following:

- Bond anticipation notes and bonds were both sold in fiscal year 2007. The proceeds from these sales totaled nearly \$26,000,000 dollars.
- A \$572,550 increase in tax receipts due mostly to the receipt of taxes for the new bond issue.
- A \$75,311 increase in operating grants due to an increase in federal grants received.
- A \$504,189 increase in interest earnings due mostly to the investment of construction funds. The interest earned on construction funds has been credited to the construction fund.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

Total disbursements increased dramatically in fiscal year 2007 as well. The increase can be attributed to the following:

- A \$799,623 increase in instruction due to the hiring of several new employees and step and base salary increases for all employees.
- A \$702,026 increase in support services due to some new hires, step and base salary increases, and increases in the number of aides through the educational service center.
- A significant increase in capital outlay and debt service attributed the construction project and the payoff of short term bond anticipation notes respectively.

***Governmental Activities***

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services. 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 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)**  
**Total and Net Cost of Program Services**  
**Governmental Activities**

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Instruction	\$7,285,576	\$6,485,953	5,848,545	\$5,095,860
Support Services:				
Pupil and Instructional Staff	744,471	666,596	655,632	609,006
Board of Education, Administration and Fiscal	1,338,718	1,280,021	1,335,665	1,278,221
Operation of Maintenance and Plant	1,551,604	1,032,670	1,535,564	1,013,183
Pupil Transportation	790,603	744,083	727,462	695,730
Food Service	445,339	465,633	(3,283)	103,317
Extracurricular Activities	303,340	250,167	233,593	164,373
Capital Outlay	652,998	19,638	652,998	19,638
Debt Service	13,813,474	361,937	13,813,474	361,937
<b>Total</b>	<b>\$26,926,123</b>	<b>\$11,306,698</b>	<b>\$24,799,650</b>	<b>\$9,341,265</b>

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

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***General Fund Budgeting Highlights***

The 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 2007, the District amended its General Fund budget several times to reflect changing circumstances. The difference between the budgeted and actual was not significant.

**Debt**

At June 30, 2007 the District had \$12,544,986 in bonds outstanding with \$475,000 due within one year. The District also had \$3,050,000 in bond anticipation notes outstanding at June 30, 2007. The bond anticipation notes are due March 14, 2008. See Notes 8 and 9 for more information about the District's debt.

**Current Issues**

The East Knox Local School District continues to receive strong support from the residents of the District. The District relies heavily on taxpayer support, and the level of support is evident by the passing of the bond issue in November 2006 to build a middle school. The most recent levy for operating monies passed by the voters was a \$600,000 Emergency Levy passed in November 2004 for five years.

Besides the monitoring of the progress of the building project, the most significant issue for the District at this time is the general fund financial situation. There was a decrease in fund balance in fiscal year 2007 and a decrease in fund balance is projected for fiscal year 2008 as well. The board has worked prudently do build a cash reserve for situations like this, but the reserve will dwindle quickly if this trend is continued. The District is taking a serious look at this issue, and trying to make budget cuts where possible.

Real estate taxes have shown steady increases, but the lack of business industry in the area has kept tangible personal property tax collections relatively small and insignificant as compared to real estate taxes. The overall revenue 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 .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

The District has seen very little increase in State revenue over the past few years. For fiscal year 2007, and now again for fiscal year 2008, the District is on the state guaranty. Basically, the District saw very little increase in State revenue in fiscal year 2007 and will see no increase in fiscal year 2008. The District is only guaranteed to receive the same amount that was received in the previous year. This alone has made it difficult for the District, and has made a large contribution to the decrease in fund balance for fiscal years 2007 and 2008.

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 District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

**Current Building Issues**

Due to overcrowding in both the School District's buildings, the Board of Education placed a 3.89 bond levy on the ballot in November 2006. The bond issue was passes by the voters. The new 5-8 building is being built on land adjacent to the Junior/Senior High building. It will remove two grades from each current building. The anticipated opening date is August 2008.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007  
Unaudited

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**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 District's finances and to show the 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 Jessica Busenburg, 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, 2007*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 11,381,009
Investments	<u>5,928,080</u>
<i>Total Assets</i>	<u><u>17,309,089</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	12,347,526
Debt Service	958,690
Other Purposes	125,048
Unrestricted	<u>3,877,825</u>
<i>Total Net Assets</i>	<u><u>\$ 17,309,089</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, 2007

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Instruction:					
Regular	\$ 3,993,934	\$ 356,080	\$ 69,034	\$ 8,282	\$ (3,560,538)
Special	1,621,676	2,294	979,367	-	(640,015)
Vocational	180,699	-	21,974	-	(158,725)
Other	1,489,267	-	-	-	(1,489,267)
Support Services:					
Pupil	530,410	58,459	9,889	-	(462,062)
Instructional Staff	214,061	-	20,491	-	(193,570)
Board of Education	14,891	-	-	-	(14,891)
Administration	979,604	-	3,053	-	(976,551)
Fiscal	344,223	-	-	-	(344,223)
Operation and Maintenance of Plant	1,551,604	-	-	16,040	(1,535,564)
Pupil Transportation	790,603	-	46,008	17,133	(727,462)
Operation of Food Services	445,339	238,245	210,377	-	3,283
Extracurricular Activities	303,340	56,247	550	12,950	(233,593)
Capital Outlay	652,998	-	-	-	(652,998)
Debt Service:					
Principal	13,263,725	-	-	-	(13,263,725)
Interest and Fiscal Charges	345,721	-	-	-	(345,721)
Issuance Costs	204,028	-	-	-	(204,028)
<b>Total</b>	<b>\$ 26,926,123</b>	<b>\$ 711,325</b>	<b>\$ 1,360,743</b>	<b>\$ 54,405</b>	<b>(24,799,650)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					4,410,596
Debt Service					699,958
Capital Outlay					135,406
Grants and Entitlements not Restricted to Specific Programs					4,718,421
Proceeds Note/Bond Sales					25,999,986
Premium on Debt Issue					221,596
Interest					707,374
Miscellaneous					55,976
<i>Total General Receipts</i>					36,949,313
Change in Net Assets					12,149,663
<i>Net Assets Beginning of Year</i>					5,159,426
<i>Net Assets End of Year</i>					<u>\$ 17,309,089</u>

See accompanying notes to the basic financial statements



**East Knox Local School District**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2007*

	<u>General</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 3,877,825	\$ 958,690	\$ 6,419,446	\$ 125,048	\$ 11,381,009
Investments	-	-	5,928,080	-	5,928,080
<i>Total Assets</i>	<u>3,877,825</u>	<u>958,690</u>	<u>12,347,526</u>	<u>125,048</u>	<u>17,309,089</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	205,443	-	1,441,152	40,355	1,686,950
Unreserved:					
Undesignated, Reported in:					
General Fund	3,672,382	-	-	-	3,672,382
Special Revenue Funds	-	-	-	84,693	84,693
Debt Service Fund	-	958,690	-	-	958,690
Capital Projects Funds	-	-	10,906,374	-	10,906,374
<i>Total Fund Balances</i>	<u>\$ 3,877,825</u>	<u>\$ 958,690</u>	<u>\$ 12,347,526</u>	<u>\$ 125,048</u>	<u>\$ 17,309,089</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 Basis Fund Balances*  
 Governmental Funds  
 For the Fiscal Year Ended June 30, 2007

	General	Debt Service Fund	Capital Project Funds	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property Taxes	\$ 4,410,596	\$ 699,958	\$ 135,406	\$ -	\$ 5,245,960
Intergovernmental	5,056,985	83,253	24,564	968,767	6,133,569
Interest	294,297	825	406,864	5,388	707,374
Tuition and Fees	354,987	-	-	37,564	392,551
Extracurricular Activities	-	-	-	79,436	79,436
Charges for Services	1,093	-	-	238,245	239,338
Miscellaneous	10,412	-	12,951	32,613	55,976
<i>Total Receipts</i>	<u>10,128,370</u>	<u>784,036</u>	<u>579,785</u>	<u>1,362,013</u>	<u>12,854,204</u>
<b>Disbursements</b>					
Current:					
Instruction:					
Regular	3,850,544	-	27,397	115,993	3,993,934
Special	1,130,900	-	-	490,776	1,621,676
Vocational	180,699	-	-	-	180,699
Other	1,489,267	-	-	-	1,489,267
Support Services:					
Pupil	477,482	-	-	52,928	530,410
Instructional Staff	158,072	-	-	55,989	214,061
Board of Education	14,891	-	-	-	14,891
Administration	880,707	-	-	98,897	979,604
Fiscal	325,137	14,413	2,763	1,910	344,223
Operation and Maintenance of Plant	914,884	-	636,720	-	1,551,604
Pupil Transportation	787,930	-	265	2,408	790,603
Operation of Food Services	-	-	-	445,339	445,339
Extracurricular Activities	211,557	-	-	91,783	303,340
Capital Outlay	-	-	652,998	-	652,998
Debt Service:					
Principal Retirement	-	13,230,000	33,725	-	13,263,725
Interest and Fiscal Charges	-	335,626	10,095	-	345,721
Issuance Costs	-	204,028	-	-	204,028
<i>Total Disbursements</i>	<u>10,422,070</u>	<u>13,784,067</u>	<u>1,363,963</u>	<u>1,356,023</u>	<u>26,926,123</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(293,700)</u>	<u>(13,000,031)</u>	<u>(784,178)</u>	<u>5,990</u>	<u>(14,071,919)</u>
<b>Other Financing Sources (Uses)</b>					
General Obligation Bonds Issued	-	9,949,986	-	-	9,949,986
Notes Issued	-	3,050,000	13,000,000	-	16,050,000
Premium on Debt Issue	-	221,596	-	-	221,596
Transfers In	-	-	20,000	3,262	23,262
Transfers Out	(23,262)	-	-	-	(23,262)
Advances In	20,000	-	-	20,000	40,000
Advances Out	(20,000)	-	-	(20,000)	(40,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(23,262)</u>	<u>13,221,582</u>	<u>13,020,000</u>	<u>3,262</u>	<u>26,221,582</u>
<i>Net Change in Fund Balances</i>	(316,962)	221,551	12,235,822	9,252	12,149,663
<i>Fund Balances Beginning of Year</i>	<u>4,194,787</u>	<u>737,139</u>	<u>111,704</u>	<u>115,796</u>	<u>5,159,426</u>
<i>Fund Balances End of Year</i>	<u>\$ 3,877,825</u>	<u>\$ 958,690</u>	<u>\$ 12,347,526</u>	<u>\$ 125,048</u>	<u>\$ 17,309,089</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, 2007*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$ 4,412,566	\$ 4,414,000	\$ 4,410,596	\$ (3,404)
Intergovernmental	4,973,762	5,060,583	5,056,985	(3,598)
Interest	190,000	298,209	294,297	(3,912)
Tuition and Fees	310,845	354,987	354,987	-
Charges for Services	1,500	1,500	1,093	(407)
Miscellaneous	8,070	13,470	10,412	(3,058)
<i>Total receipts</i>	<u>9,896,743</u>	<u>10,142,749</u>	<u>10,128,370</u>	<u>(14,379)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	3,943,820	3,893,140	3,880,187	12,953
Special	1,029,951	1,137,039	1,135,460	1,579
Vocational	168,722	182,795	182,674	121
Other	1,343,423	1,494,662	1,494,661	1
Support Services:				
Pupil	469,072	482,284	481,749	535
Instructional Staff	157,188	158,632	158,405	227
Board of Education	17,204	15,179	15,176	3
Administration	902,055	893,706	892,726	980
Fiscal	366,399	329,113	328,449	664
Operation and Maintenance of Plant	1,001,033	1,033,696	1,031,465	2,231
Pupil Transportation	844,099	814,770	814,528	242
Operation of Non-Instructional Services	210	1	1	-
Extracurricular Activities	169,510	212,223	212,032	191
<i>Total Disbursements</i>	<u>10,412,686</u>	<u>10,647,240</u>	<u>10,627,513</u>	<u>19,727</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(515,943)</u>	<u>(504,491)</u>	<u>(499,143)</u>	<u>5,348</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(20,000)	(23,262)	(23,262)	-
Advances In	20,000	20,000	20,000	-
Advances Out	(20,000)	(20,000)	(20,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(20,000)</u>	<u>(23,262)</u>	<u>(23,262)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(535,943)	(527,753)	(522,405)	5,348
<i>Fund Balance Beginning of Year</i>	4,084,832	4,084,832	4,084,832	-
Prior Year Encumbrances Appropriated	<u>109,955</u>	<u>109,955</u>	<u>109,955</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 3,658,844</u>	<u>\$ 3,667,034</u>	<u>\$ 3,672,382</u>	<u>\$ 5,348</u>

See accompanying notes to the basic financial statements

**East Knox Local School District**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2007*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 50,880</u>
<b>Net Assets</b>	
Unrestricted	<u>\$ 50,880</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, 2007*

**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 81 certified teaching personnel and 55 non-certified support personnel to provide services to 1,221 students.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For East Knox Local School District, this includes general operations, food service, 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 jointly governed organization and the Ohio School Boards Association Worker's Compensation Group Rating Program which is an insurance purchasing pool. Information about these organizations is presented in Note 12 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. The 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 Section 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.

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

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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**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. 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.

Financial records 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 one major category: governmental. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the School District or meets the following criterion:

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.

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 is 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.
Capital Projects Fund	This fund accounts for receipts derived from the sale of notes/bonds for capital projects and levies for permanent improvement disbursements. It is used to account for all construction related disbursements and permanent improvement disbursements.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

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

**B. Basis of Presentation - Fund Accounting (Continued)**

Debt Service Fund	This fund accounts for receipts derived from levies used for the retirement of debt and related interest.
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The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

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 only fiduciary funds are 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.

**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*  
*June 30, 2007*

**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 level of disbursements for the general fund and the fund level for all other funds, 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 the legal level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the general fund, 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.

**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, are maintained in this account or are 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*  
*June 30, 2007*

**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 when received and payment of principal and interest are reported as disbursements when paid.

**H. Intergovernmental Receipts**

Unrestricted intergovernmental receipts 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 capital assets 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 Activity**

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

**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 6 and 7, 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*  
*June 30, 2007*

**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. Of the School District’s \$13,431,264 in restricted net assets, none is restricted by 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 cash balance.

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 disbursement. 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 Disbursements**

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.

**NOTE 3 - 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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

Protection of the 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.

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, 2007, the District had \$1,560 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 the School District's 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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

At fiscal year end, the carrying amount of the School District's deposits for in checking, savings, and money market accounts was \$10,795,570 and the bank balance was \$11,054,358. Of the bank balance, \$765,282 was covered by federal depository insurance and the remaining balance of \$10,289,076 was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the School District's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School 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 School District to a successful claim by the Federal Deposit Insurance Corporation.

***Investments***

Investments are reported at cost. As of June 30, 2007, the School District had the following investments:

	Cost as of 6/30/2007	% of Investment Total	Maturities	
			0-1 Year	1-5 Years
FHLB Bonds	\$ 1,994,200	30%	\$ 1,490,464	\$ 503,736
FHLMC Discount Notes	1,977,160	30%	1,977,160	-
FNMA Discount Notes	2,451,747	38%	2,451,747	-
STAROhio	139,732	2%	139,732	-
Total Investments	<u>\$ 6,562,839</u>	<u>100%</u>	<u>\$ 6,059,103</u>	<u>\$ 503,736</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 purchases 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.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District's investment policy allows the Treasurer to invest in those investments authorized by the Ohio Revised Code, and places additional limitations with amounts authorized for the investment in certain types. The School District has limited its investments to STAROhio, certificates of deposits, and U.S. government agencies securities. STAROhio is rated AAAM by Standard and Poor's. U.S. government agencies securities are rated AAA by Standard and Poor's.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy does not address concentration of credit risk.

***Custodial Credit Risk***

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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." However, all of the School District's investments are either insured and registered in the name of the School District or at least registered in the name of the School District.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 4 - 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 2007 represent the collection of calendar year 2006 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 2007 were levied after April 1, 2006 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 2007 represent the collection of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien on December 31, 2005, were levied after April 1, 2006, 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 2007 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2005. 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**NOTE 5 - 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 2007, the School District contracted the Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$19,329,479 limit.

The School District has professional liability insurance with Indiana Insurance Company. Professional liability protection was set at \$1,000,000 per single occurrence limit and \$1,000,000 aggregate with a \$2,500 deductible.

Vehicles are covered by the Indiana Insurance Company with a \$500 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Additionally, the School District carries a \$3,000,000 blanket umbrella policy with Indiana Insurance Company.

The School District has not incurred any significant reductions in coverage from the previous fiscal year. Settled claims have not exceeded coverage in any of the past three fiscal years.

**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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 6 - 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 toll free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 remainder being used to fund health care benefits. 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, 2007, 2006 and 2005 were \$219,408, \$155,016, and \$162,704, respectively. 100 percent has been contributed for fiscal years 2007, 2006, and 2005.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. 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, 2007, 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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

The School District's required contributions for the fiscal years ended June 30, 2007, 2006, and 2005 were \$591,612, \$474,960, and \$486,360, respectively. 100 percent had been contributed for fiscal years 2007, 2006, and 2005.

**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 7 - POST EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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 funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.5 billion at June 30, 2006 (the latest information available). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 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 2006 (the latest information available), the minimum pay has been established at \$35,800.

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. Net expenses for health care for the year ending June 30, 2006 (the latest information available) were \$158,751,207. As of June 30, 2006, the value of the health care fund was \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 8 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	<u>Outstanding June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2007</u>	<u>Due in One Year</u>
General Obligation Bonds					
Series 2004					
Serial 1.5%-4.42% \$3,110,000	\$ 2,645,000	\$ -	\$ 230,000	\$ 2,415,000	\$ 225,000
Capital Appreciation \$180,000	180,000	-	-	180,000	-
Series 2007					
Serial 4% \$5,795,000	-	5,795,000	-	5,795,000	250,000
Capital Appreciation \$259,986	-	259,986	-	259,986	-
Term 4%-4.125% \$3,895,000	-	3,895,000	-	3,895,000	-
Capital Leases	<u>33,725</u>	<u>-</u>	<u>33,725</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,858,725</u>	<u>\$ 9,949,986</u>	<u>\$ 263,725</u>	<u>\$ 12,544,986</u>	<u>\$ 475,000</u>

Outstanding general obligation bonds have been issued for school building construction and include serial, term, and capital appreciation bonds. The accretion of these capital appreciation bonds is not included in the above schedule under the cash basis of accounting. 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. Series 2004 General Obligation Bonds

This issuance consisted of serial bonds and capital appreciation bonds. This issuance included a premium of \$153,437. The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range 1.5% to 4.2%. 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. Total maturity of these capital appreciation bonds is \$510,000. Accretion for fiscal year 2007 amounted to \$5,100. Total accretion through fiscal year 2007 amounted to \$63,750.

B. Series 2007 General Obligation Bonds

This issuance consisted of serial bonds, term bonds, and capital appreciation bonds. This issuance included a premium of \$154,703. The serial bonds mature at varying amounts annually on December 1, beginning in 2007 and ending in 2028. The rates on these bonds range from 4% to 4.125%. The capital appreciation bonds mature December 1, 2015 and 2016. 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. Total maturity of these capital appreciation bonds is \$730,000. Accretion for fiscal year 2007 amounted to \$25,550. The term bonds mature December 1, 2030 and 2034.



**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**NOTE 8 - LONG-TERM OBLIGATIONS (Continued)**

The annual requirement to amortize all long-term debt outstanding as of June 30, 2007, including interest payments of \$9,091,436 is as follows:

Year	Principal*	Interest	Total
2007	\$ 475,000	\$ 330,040	\$ 805,040
2008	235,000	460,390	695,390
2009	235,000	453,865	688,865
2010	235,000	446,765	681,765
2011	240,000	439,090	679,090
2012-2016	1,767,727	2,904,355	4,114,341
2017-2021	2,737,273	1,777,550	4,272,550
2022-2026	2,415,000	1,315,075	3,730,075
2027-2031	2,940,000	791,675	3,731,675
2032-2034	2,065,000	172,631	2,237,631
Total	<u>\$13,345,000</u>	<u>\$ 9,091,436</u>	<u>\$ 21,636,422</u>

\*The principal in the above amortization does not agree to the principal in the table on page 27 as the above amortization schedule includes total accreted value of the School District's capital appreciation bonds.

**NOTE 9 - SHORT-TERM OBLIGATIONS**

The changes in the School District's short-term obligations during fiscal year 2007 were as follows:

	Outstanding June 30, 2006	Additions	Deductions	Outstanding June 30, 2007
Bond Anticipation Notes				
Series 2006 4.25% \$9,950,000	\$ -	\$ 9,950,000	\$ 9,950,000	\$ -
Series 2007A 5.00% \$3,050,000	-	3,050,000	3,050,000	-
Series 2007B 4.25% \$3,050,000	-	3,050,000	-	3,050,000
	<u>\$ -</u>	<u>\$ 16,050,000</u>	<u>\$ 13,000,000</u>	<u>\$ 3,050,000</u>

The Series 2006 and 2007A monies were used to start funding the construction project. These BANs matured on June 1, 2007. The Series 2007B BANs were issued in March 2007. The proceeds from the 2007B BANs, as well as the proceeds from the Series 2007 general obligation bonds, were used to pay off the Series 2006 and 2007A BANs at maturity. The Series 2007B BANs have a maturity date of March 14, 2008. These issuances included premiums of \$31,940, \$16,470, and \$18,483, respectively.

**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 capital leases were completely paid in fiscal year 2007. The total payments for fiscal year 2007 totaled \$43,820, which includes \$10,095 in interest. The School District currently has no capital lease obligations for future years.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*June 30, 2007*

**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.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal years 2007.

	Textbook Instructional Materials Reserve	Capital Improvement Reserve	Total
Set-Aside Reserve Balance as of June 30, 2006	\$ (59,040)	\$ 0	\$ (59,040)
Current Year Set-Aside Requirement	177,002	177,002	354,004
Current Year Offsets	0	(144,576)	(144,576)
Qualifying Disbursements	<u>(214,978)</u>	<u>(115,865)</u>	<u>(330,843)</u>
Totals	<u>\$ (97,016)</u>	<u>\$ (83,439)</u>	<u>\$ (180,455)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (97,016)</u>	<u>\$ 0</u>	
Set-Aside Reserve Balance as of June 30, 2007	<u>\$ 0</u>	<u>\$ 0</u>	

The School District had qualifying disbursements during the year that reduced the textbooks and the capital improvements set-aside amount below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years.

**NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Jointly Governed Organization**

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is 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 \$35,448 to TRECA during fiscal year 2007 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*  
*June 30, 2007*

**NOTE 13 - CONTINGENCIES**

**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 are 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, 2007.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances, which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding for year ended June 30, 2007 amounted to \$205,443.

**NOTE 15 – COMPLIANCE**

Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) require the School District to prepare its financial statements in accordance with generally accepted accounting principles. However, the School District opts to prepares its financial statements in accordance with the cash basis of accounting.

**NOTE 16 – INTERFUND ACTIVITY**

Transfers and advances were made during the year ended June 30, 2007 were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>	<u>Advance From</u>	<u>Advance To</u>
Major Funds:				
General	\$23,262	\$0	\$20,000	\$20,000
Capital Project	0	20,000	0	0
Non-Major Funds:				
Uniform School Supplies	0	3,262	20,000	20,000
Total	<u>\$23,262</u>	<u>\$23,262</u>	<u>\$40,000</u>	<u>\$40,000</u>

Transfers were made by the general fund to move unrestricted balances to support programs and projects accounted for in other funds. Advances were made by the general fund to provide operating support funds. The general fund was reimbursed when funds became available.

**NOTE 17 – SIGNIFICANT CONTRACTUAL COMMITMENTS**

The School District had the following contractual commitment outstanding as of June 30, 2007:

<u>Contractor</u>	<u>Purpose</u>	<u>Commitment</u>
Trucco Construction, Inc.	Building Construction	\$744,144

East Knox Local School District  
Knox County  
Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>United States Department of Agriculture</u></b>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
School Breakfast Program	O5PU	10.553	\$ 55,506	\$ -	\$ 55,506	\$ -
National School Lunch Program	LLP4	10.555	145,351	-	145,351	-
Total Nutrition Cluster			200,857	-	200,857	-
Food Donation	NA	10.550	-	58,226	-	58,226
<b>Total United States Department of Agriculture</b>			200,857	58,226	200,857	58,226
<b><u>United States Department of Education</u></b>						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Educational Agencies	C1S1	84.010	278,296	-	280,805	-
Special Education - Grants to States	6BSF	84.027	300,938	-	303,429	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	5,420	-	10,090	-
State Grants for Innovative Programs	C2S1	84.298	1,731	-	2,141	-
Education Technology State Grants	TJS1	84.318	2,618	-	2,360	-
Comprehensive School Reform Demonstration	RFCC	84.332	71,212	-	69,482	-
Improving Teacher Quality State Grants	TRS1	84.367	36,017	-	36,452	-
<b>Total United States Department of Education</b>			696,232	-	704,759	-
<b>Total Federal Financial Assistance</b>			\$ 897,089	\$ 58,226	\$ 905,616	\$ 58,226

NA - Not Available  
See accompanying notes to the schedule of federal awards expenditures.

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

*Notes to Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2007*

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures 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 -FOOD DONATION**

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

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

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

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, Knox County (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 2007, wherein we noted the District followed the cash basis of accounting, rather than accounting principles generally accepted in the United States of America. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

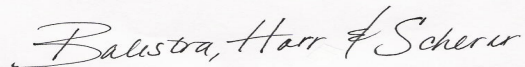
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic 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 or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2007-001.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

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



Balestra, Harr & Scherer, CPAs, Inc.

October 26, 2007

# BALESTRA, HARR & SCHERER CPAs, INC.

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

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

### **Compliance**

We have audited the compliance of the East Knox Local School District, Knox County (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The 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 District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

### **Internal Control Over Compliance**

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

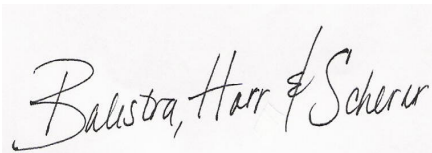
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal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



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

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

October 26, 2007

EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

**SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States, 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?	Yes

EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

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

**Finding Number 2007-001**

**Noncompliance Citation**

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

**Client Response**

The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	A noncompliance citation was issued for Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected, Reissued as Finding Number 2007-001.



**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 31, 2007**