



Mary Taylor, CPA
Auditor of State

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

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AUGLAIZE COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

New Knoxville Local School District
Auglaize County
345 S. Main Street P.O. Box 476
New Knoxville, Ohio 45871

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 New Knoxville Local School District, Auglaize County, (the School District), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of New Knoxville Local School District, Auglaize County, as of June 30, 2008 and 2007, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2009, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, 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*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

April 17, 2009

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of New Knoxville Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2008, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

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 School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

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.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For New Knoxville Local School District, the General Fund and the Ohio School Facilities capital projects fund are the most significant funds.

Reporting The School District As A Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2008, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. 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 School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities including instruction, support services, non-instructional services, extracurricular activities, capital outlay, and debt service disbursements.

Reporting The School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Ohio School Facilities capital projects fund.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs.

The School District As A Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2008 and fiscal year 2007:

Table 1			
Net Assets			
Governmental Activities			
	2008	2007	Variance
Assets:			
Total Assets	\$5,346,953	\$6,177,007	(\$830,054)
Net Assets:			
Restricted	3,763,051	4,169,029	(405,978)
Unrestricted	1,583,902	2,007,978	(424,076)
Total Net Assets	\$5,346,953	\$6,177,007	(\$830,054)

Cash and cash equivalents decreased as monies were spent on the Ohio School Facilities Commission project in fiscal year 2008.

Unrestricted net assets decreased due to cash deficits in restricted funds.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2008 and fiscal year 2007.

**Table 2
Changes in Net Assets**

	2008	2007	Variance
Receipts:			
Program Receipts:			
Charges for Services	\$ 446,782	\$ 522,560	(\$ 75,778)
Operating Grants, Contributions, and Interest	355,259	334,466	20,793
Capital Grants and Contributions	1,708	2,588	(880)
Total Program Receipts	<u>803,749</u>	<u>859,614</u>	<u>(55,865)</u>
General Receipts:			
Property Taxes Levied for General Purposes	1,049,738	1,142,018	(92,280)
Property Taxes levied for Debt Service	222,956	169,489	53,467
Property Taxes Levied for Permanent Improvements	35,828	38,952	(3,124)
Income Taxes	595,420	486,703	108,717
Grants and Entitlements	5,943,357	3,714,871	2,228,486
Interest	247,296	165,083	82,213
General Obligation Refunding Bonds Issued		1,234,998	(1,234,998)
General Obligation Bonds Issued		1,999,999	(1,999,999)
Premium on General Obligation Refunding Bonds		96,145	(96,145)
Premium on General Obligation Bonds		70,524	(70,524)
Miscellaneous	53,009	20,738	32,271
Total General Receipts	<u>8,147,604</u>	<u>9,139,520</u>	<u>(991,916)</u>
Total Receipts	<u>8,951,353</u>	<u>9,999,134</u>	<u>(1,047,781)</u>
Disbursements:			
Instruction:			
Regular	1,988,008	1,953,899	(34,109)
Special	295,883	264,460	(31,423)
Support Services:			
Pupils	74,561	100,076	25,515
Instructional Staff	149,515	152,347	2,832
Board of Education	26,300	24,060	(2,240)
Administration	408,327	415,759	7,432
Fiscal	128,444	141,759	13,315
Operation and Maintenance of Plant	346,978	338,567	(8,411)
Pupil Transportation	99,545	72,068	(27,477)
Central	57,468	50,083	(7,385)
Non-instructional Services	109,970	106,039	(3,931)
Extracurricular Activities	267,006	239,499	(27,507)
Capital Outlay	5,609,387	537,824	(5,071,563)
Debt Service:			
Principal Retirement	70,000	2,040,000	1,970,000
Payment to Refunded Bond Escrow Agent		1,288,075	1,288,075
Interest and Fiscal Charges	150,015	154,828	4,813
Issuance Costs		106,649	106,649
Discount on General Obligation Bonds		6,942	6,942
Total Disbursements	<u>9,781,407</u>	<u>7,992,934</u>	<u>(1,788,473)</u>
Increase (Decrease) in Net Assets	(830,054)	2,006,200	(2,836,254)
Net Assets at Beginning of Year	6,177,007	4,170,807	2,006,200
Net Assets at End of Year	<u>\$5,346,953</u>	<u>\$6,177,007</u>	<u>(\$ 830,054)</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Program receipts decreased slightly in fiscal year 2008. Program receipts are primarily represented by restricted intergovernmental receipts, tuition, fees, charges for extracurricular activities, and food service sales. Program receipts for charges for services decreased from a drop in open enrollment students.

The most significant receipts during fiscal year 2007 were from the issuance of the general obligation bonds to pay off the bond anticipation notes and general obligation refunding bonds to refund general obligation bonds. These receipts totaled \$3,401,666. Due to this prior year activity, overall receipts decreased substantially from the prior fiscal year.

General receipts in fiscal year 2008 represent 91 percent of the School District's total receipts in fiscal year 2008. Income tax receipts increased by 22 percent. The School District passed a .25 percent income tax levy in November 2006 and received one quarter of those receipts during fiscal year 2007. During fiscal year 2008, the School District received four quarters of receipts from this levy. Grants and entitlements increased significantly from the School District receiving \$2,193,812 more in Ohio School Facilities Commission grants in fiscal year 2008. Other receipts, such as interest and miscellaneous receipts are very insignificant and somewhat unpredictable receipt sources.

The most significant changes in disbursements were from the retirement of the bond anticipation notes, in the amount of \$2,000,000, and making payments to the refunded bond escrow agent relating to the refunded general obligation bonds, in the amount of \$1,288,075, in fiscal year 2007.

Upon comparing disbursements, net of the above transactions, total disbursements increased by 116 percent. During fiscal year 2008, capital outlay increased significantly from renovating the school building with the proceeds of debt and the grant from the Ohio School Facilities Commission.

Disbursements for instruction and support services did not change significantly.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction:				
Regular	\$1,988,008	\$1,953,899	\$1,775,050	\$1,671,082
Special	295,883	264,460	16,869	13,955
Vocational			(12,906)	(22,664)
Support Services:				
Pupils	74,561	100,076	69,561	95,076
Instructional Staff	149,515	152,347	149,515	152,347
Board of Education	26,300	24,060	26,300	24,060
Administration	408,327	415,759	408,327	415,759
Fiscal	128,444	141,759	128,444	141,759
Operation and Maintenance of Plant	346,978	338,567	336,019	327,608
Pupil Transportation	99,545	72,068	95,335	67,209
Central	57,468	50,083	51,468	44,083
Non-instructional Services	109,970	106,039	(19,756)	(17,277)
Extracurricular Activities	267,006	239,499	124,030	86,005
Capital Outlay	5,609,387	537,824	5,609,387	537,824

(Continued)

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

**Table 3
Governmental Activities
(Continued)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Intergovernmental:				
Debt Service:				
Principal Retirement	70,000	2,020,000	70,000	2,040,000
Payment to Refunded Bond Escrow Agent		1,288,075		1,288,075
Interest and Fiscal Charges	150,015	154,828	150,015	154,828
Issuance Costs		106,659		106,649
Discount on General Obligation Bonds		6,942		6,942
Total Disbursements	<u>\$9,781,407</u>	<u>\$7,992,934</u>	<u>\$8,977,658</u>	<u>\$7,133,320</u>

The above table indicates that only 8 percent of the cost of services is financed through user charges and grants awarded for specific programs. The remaining 92 percent of the total cost of services is financed through property taxes, income taxes, and unrestricted grants and entitlements.

The most significant program receipts from restricted grants are associated with special instruction and vocational instruction. Other material program receipts were received for noninstructional services (which consists of food service) and extracurricular programs (consisting of sport-related and trip charges that are received to finance these activities). Food service also receives federal and state funds for providing meals to students.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund and the Ohio School Facilities capital projects fund. Fund balance increased 12 percent in the General Fund. Although receipts decreased slightly and disbursements increased, receipts continue to exceed disbursements.

The Ohio School Facilities capital projects fund balance decreased as construction began on the renovation of the instructional building.

General Fund Budgeting Highlights

The School District prepares an annual budget of receipts and disbursements for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of July. The School District's most significant budgeted fund is the General Fund.

For receipts, final budgeted receipts did not change from the School District's original estimates. Changes from the final budget to actual receipts were not significant.

During fiscal year 2008, the Board of Education did not pass a permanent appropriation; therefore, only the prior year outstanding encumbrances are reported in the original and final disbursement estimates. This created negative variances for all School District functions.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Current Issues

The School District's renovation project consists of replacing the wiring, heating, air conditioning, and ventilation throughout the instructional building. The project also enclosed the open space between the gymnasium and the industrial tech department to allow for a better entrance to events held in the gymnasium, additional office space, and a conference room. Two additional classrooms were added to the west side of the elementary wing. The parking lot was excavated and paved to create additional parking space. Construction was completed in January 2009.

The School District entered into a loan agreement, in the amount of \$900,000, on September 23, 2008, with an interest rate of 4.47 percent to fund the locally funded initiatives of the project.

Request For Information

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Marcia Wierwille, Treasurer, 345 South Main Street, New Knoxville, Ohio 45871.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2008**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,271,304
Cash and Cash Equivalents with Escrow Agent	75,649
Total Assets	5,346,953
 Net Assets	
Restricted for:	
Debt Service	331,581
Capital Projects	3,033,907
Other Purposes	349,685
Setasides	47,878
Unrestricted	1,583,902
Total Net Assets	\$5,346,953

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Program Cash Receipts</u>			<u>Net (Disbursement) Receipt and Change in Net Assets</u>	
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$1,988,008	\$198,469	\$14,489		(\$1,775,050)
Special	295,883		279,014		(16,869)
Vocational			12,906		12,906
Support Services:					
Pupils	74,561		5,000		(69,561)
Instructional Staff	149,515				(149,515)
Board of Education	26,300				(26,300)
Administration	408,327				(408,327)
Fiscal	128,444				(128,444)
Operation and Maintenance of Plant	346,978		10,959		(336,019)
Pupil Transportation	99,545		2,502	\$1,708	(95,335)
Central	57,468		6,000		(51,468)
Non-instructional Services	109,970	108,057	21,669		19,756
Extracurricular Activities	267,006	140,256	2,720		(124,030)
Capital Outlay	5,609,387				(5,609,387)
Debt Service:					
Principal Retirement	70,000				(70,000)
Interest and Fiscal Charges	150,015				(150,015)
Total Governmental Activities	<u>\$9,781,407</u>	<u>\$446,782</u>	<u>\$355,259</u>	<u>\$1,708</u>	<u>(8,977,658)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes					1,049,738
Debt Service					222,956
Permanent Improvements					35,828
Income Taxes					595,420
Grants and Entitlements not Restricted to Specific Programs					5,943,357
Interest					247,296
Miscellaneous					53,009
Total General Receipts					<u>8,147,604</u>
Change in Net Assets					(830,054)
Net Assets at Beginning of Year					<u>6,177,007</u>
Net Assets at End of Year					<u>\$5,346,953</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	<u>General</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,278,709	\$2,821,903	\$104,032	\$5,204,644
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	66,660			66,660
Cash and Cash Equivalents with Escrow Agent		65,164	10,485	75,649
Total Assets	<u>2,345,369</u>	<u>2,887,067</u>	<u>114,517</u>	<u>5,346,953</u>
Fund Balances				
Reserved for Textbooks	34,215			34,215
Reserved for Budget Stabilization	13,663			13,663
Reserved for Bus Purchases	18,782			18,782
Reserved for Encumbrances	60,535	2,917,914	63,488	3,041,937
Unreserved, Reported in:				
General Fund	2,218,174			2,218,174
Special Revenue Funds			329,165	329,165
Debt Service Fund			331,581	331,581
Capital Projects Funds (Deficit)		(30,847)	(609,717)	(640,564)
Total Fund Balances	<u>\$2,345,369</u>	<u>\$2,887,067</u>	<u>\$114,517</u>	<u>\$5,346,953</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts				
Property Taxes	\$1,049,738		\$258,784	\$1,308,522
Income Taxes	595,420			595,420
Intergovernmental	2,068,661	\$4,015,914	208,946	6,293,521
Interest	75,930	171,366	1,627	248,923
Tuition and Fees	198,469			198,469
Charges for Services			108,057	108,057
Extracurricular Activities			140,256	140,256
Gifts and Donations	2,754		2,422	5,176
Miscellaneous	13,552		39,457	53,009
Total Receipts	<u>4,004,524</u>	<u>4,187,280</u>	<u>759,549</u>	<u>8,951,353</u>
Disbursements				
Current:				
Instruction:				
Regular	1,985,413		2,595	1,988,008
Special	169,235		126,648	295,883
Support Services:				
Pupils	73,065		1,496	74,561
Instructional Staff	149,515			149,515
Board of Education	26,300			26,300
Administration	407,827		500	408,327
Fiscal	122,998		5,446	128,444
Operation and Maintenance of Plant	341,860		5,118	346,978
Pupil Transportation	99,545			99,545
Central	53,028		4,440	57,468
Non-instructional Services			109,970	109,970
Extracurricular Activities	103,814		163,192	267,006
Capital Outlay		4,833,516	775,871	5,609,387
Debt Service:				
Principal Retirement			70,000	70,000
Interest and Fiscal Charges			150,015	150,015
Total Disbursements	<u>3,532,600</u>	<u>4,833,516</u>	<u>1,415,291</u>	<u>9,781,407</u>
Excess of Receipts Over (Under) Disbursements	<u>471,924</u>	<u>(646,236)</u>	<u>(655,742)</u>	<u>(830,054)</u>
Other Financing Sources (Uses)				
Transfers In		111,650	121,895	233,545
Transfers Out	<u>(211,767)</u>		<u>(21,778)</u>	<u>(233,545)</u>
Total Other Financing Sources (Uses)	<u>(211,767)</u>	<u>111,650</u>	<u>100,117</u>	
Changes in Fund Balances	260,157	(534,586)	(555,625)	(830,054)
Fund Balances at Beginning of Year	<u>2,085,212</u>	<u>3,421,653</u>	<u>670,142</u>	<u>6,177,007</u>
Fund Balances at End of Year	<u>\$2,345,369</u>	<u>\$2,887,067</u>	<u>\$114,517</u>	<u>\$5,346,953</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Receipts				
Property Taxes	\$1,105,000	\$1,105,000	\$1,049,738	(\$55,262)
Income Taxes	475,000	475,000	595,420	120,420
Intergovernmental	1,972,050	1,972,050	2,068,661	96,611
Interest	90,000	90,000	76,434	(13,566)
Tuition and Fees	202,700	202,700	198,469	(4,231)
Gifts and Donations	100	100	2,754	2,654
Miscellaneous	12,050	12,050	13,552	1,502
Total Receipts	3,856,900	3,856,900	4,005,028	148,128
Disbursements				
Current:				
Instruction:				
Regular	16,683	16,683	2,016,185	(1,999,502)
Special			183,654	(183,654)
Support Services:				
Pupils			73,065	(73,065)
Instructional Staff			149,515	(149,515)
Board of Education	1,391	1,391	26,300	(24,909)
Administration	100	100	407,827	(407,727)
Fiscal	1,145	1,145	129,216	(128,071)
Operation and Maintenance of Plant	4,070	4,070	350,766	(346,696)
Pupil Transportation			99,765	(99,765)
Central	10	10	53,028	(53,018)
Extracurricular Activities			103,814	(103,814)
Total Disbursements	23,399	23,399	3,593,135	(3,569,736)
Excess of Receipts Over Disbursements	3,833,501	3,833,501	411,893	(3,421,608)
Other Financing Uses				
Transfers Out			(211,767)	(211,767)
Changes in Fund Balance	3,833,501	3,833,501	200,126	(3,633,375)
Fund Balance at Beginning of Year	2,061,309	2,061,309	2,061,309	
Prior Year Encumbrances Appropriated	23,399	23,399	23,399	
Fund Balance at End of Year	\$5,918,209	\$5,918,209	\$2,284,834	(\$3,633,375)

See accompanying notes to the basic financial statements.

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$10,114</u>	<u>\$16,843</u>
Net Assets		
Endowments	10,000	
Held for Students	114	16,843
Total Net Assets	<u>\$10,114</u>	<u>\$16,843</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS CHANGE IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Additions	
Interest	<u>\$514</u>
Deductions	
Non-instructional Services	<u>400</u>
Change in Net Assets	114
Net Assets at Beginning of Year	<u>10,000</u>
Net Assets at End of Year	<u><u>\$10,114</u></u>

See accompanying notes to the basic financial statements.

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

New Knoxville Local School District (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 Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. The School District is the 602nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by sixteen classified employees, thirty-three certified teaching personnel, and four administrative employees who provide services to 442 students and other community members. The School District currently operates one school building.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For New Knoxville 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 organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the New Knoxville Local School District.

The School District participates in four jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This 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. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

During the fiscal 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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund and the Ohio School Facilities capital projects fund.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ohio School Facilities Fund - The Ohio School Facilities capital projects fund is used to account for the renovation of the School District's building. The project is being funded with local taxes and a grant from the Ohio School Facilities Commission.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the fund level for all funds. Budgetary allocations at the function and object level in all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the School District prior to fiscal year end.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The Board did not pass permanent appropriations in fiscal year 2008; therefore, the only amounts reported as the original budgeted and the final budgeted amounts represent the carryover encumbrances as of June 30, 2007.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2008, investments consisted of nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2008 was \$75,930, which includes \$12,885 assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool 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.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the purchase of textbooks and instructional materials, for budget stabilization, and for unexpended revenues restricted for bus purchases.

The restricted assets for budget stabilization represent monies required to be set aside by State statute to protect against cyclical changes in receipts and disbursements.

The School District has resources set aside in separate escrow accounts whose use is limited to the payment of retainage to contractors.

G. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Interfund Balances

On fund financial statements, short-term interfund loans are classified as "Advances In/Out". Interfund balances within governmental activities are eliminated on the statement of net assets.

I. Compensated Absences

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.

J. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District did not have any net assets restricted by enabling legislation at June 30, 2008.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for textbooks, budget stabilization, bus purchases, and encumbrances.

M. Interfund Activity

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

Internal allocations of overhead disbursements from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

3. COMPLIANCE

At June 30, 2008, the Building capital projects fund had a deficit cash balance, in the amount of \$694,808. On September 23, 2008, the School District entered into a loan agreement, in the amount of \$900,000, to finance the construction activity.

The Board of Education did not adopt permanent appropriations for fiscal year 2008; therefore, all fund disbursements plus year end encumbrances exceeded appropriations. The Board of Education is required to adopt permanent appropriations for the fiscal year. Additionally, the School District did not prepare financial statements in accordance with generally accepted principles, establish a special fund for the local share of the classroom facilities program, formally approve transfers, record/budget all receipts and disbursements, and post activity to the correct funds, as required.

4. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

- 7. The State Treasurer's investment pool (STAR Ohio); and
- 8. Certain bankers' acceptances and commercial paper if training requirements have been met.

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 two 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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,000,126 of the School District's bank balance of \$3,513,039 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

B. Investments

	<u>Carrying Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Notes	\$1,348,067	March 15, 2012
Federal Home Loan Bank Notes	100,194	January 28, 2013
Mutual Fund	48,301	55 Days Average
STAR Ohio	322,623	53 Days Average
Total Investments	<u>\$1,819,185</u>	

A significant portion of these investments are in the Ohio School Facilities capital projects fund as presented below:

	<u>Ohio School Facilities</u>
Federal Home Loan Mortgage Corporation Notes	\$1,348,067
Federal Home Loan Bank Notes	100,194
Mutual Fund	48,301
STAR Ohio	196,704
Total	<u>\$1,693,266</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the School District.

The Federal Home Loan Mortgage Corporation Notes and Federal Home Loan Bank Notes carry a rating of Aaa by Moodys. STAR Ohio and the mutual fund carry a rating of AAAM by Standard and Poor's. The School District has no investment policy for credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

The following table indicates the percentage of each investment to the total portfolio:

	Carrying Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation Notes	\$1,348,067	74.10%
Federal Home Loan Bank Notes	100,194	5.51

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2008 represent the collection of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed values as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2008 represent the collection of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien on December 31, 2006, were levied after April 1, 2007, 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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

5. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2008 (other than public utility property) represent the collection of calendar year 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after October 1, 2007, on the value as of December 31, 2007. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2008 is 6.25 percent. This will be reduced to zero for 2009. 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.

The School District receives property taxes from Auglaize and Shelby 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, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$39,839,950	91.86%	\$40,560,930	93.19%
Public Utility	1,065,880	2.46	738,030	1.70
Tangible Personal	2,464,661	5.68	2,224,940	5.11
Total Assessed Value	<u>\$43,370,491</u>	<u>100.00%</u>	<u>\$43,523,900</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$53.95		\$53.95	

6. INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. One percent of the tax levy was effective on January 1, 2005, for a five-year period and .25 percent was effective on January 1, 2007, for a twenty-three year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. INTERFUND ACTIVITY

At June 30, 2008, the General Fund had an unpaid interfund cash advance, in the amount of \$415, to other governmental funds to provide cash flow resources until the receipt of grant monies.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

8. RISK MANAGEMENT

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.

During fiscal year 2008, the School District contracted for the following insurance coverage.

Coverage provided by Consolidated Insurance Company is as follows:	
Building and Contents	\$12,623,148
General Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Coverage provided by Netherlands Insurance Company is as follows:	
Automobile	1,000,000
Coverage provided by Midwestern Indemnity Company is as follows:	
Excess Liability	1,000,000

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

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

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

9. CONTRACTUAL OBLIGATIONS

As of June 30, 2008, the School District had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Brumbaugh-Herrick	Asbestos Consulting	\$ 23,200
Midwest Environmental Control	Asbestos Removal	3,325
Stan and Associates	OSFC Oversight	48,252
William Scotsman	Modulars	40,315
Garmann & Miller Associates	Architects	73,930
Peterson Construction	General Contractor	1,013,411

(Continued)

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

9. CONTRACTUAL OBLIGATIONS (Continued)

Central Fire Protection	Fire Alarms	97,676
Regal Plumbing	Plumbing and HVAC	902,262
Area Energy and Electric	Electrical	411,648
Farnham Company	Cafeteria Tables	24,990
Innovative Office	Furnishings	51,832
Parallel Technologies	Telephone System	23,250
Valley Electrical	Video System	195,137
Microman, Inc.	Data Networking	36,937
Securcom	Camera System	20,450

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Plan Description - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the STRS Ohio 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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

The School District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 was \$215,908, \$211,572, and \$207,389 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions for the DCP and CP for the fiscal year ended June 30, 2008, were \$5,573 made by the School District and \$14,421 made by plan members.

B. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006 was \$36,487, \$40,723, and \$39,348, respectively; 45 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2008, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - The School District contributes to a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which may be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

11. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2008, 2007, and 2006 was \$17,037, \$16,670, and \$16,292 respectively; 83 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. School Employees Retirement System

Plan Description - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan, and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2008, this amount was \$22,658.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility, and retirement status.

The School District's contribution for health care for the fiscal years ended June 30, 2008, 2007, and 2006 was \$16,650, \$13,520, and \$13,732 respectively; 45 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2008, this actuarially required allocation was .66 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 was \$2,629, \$2,769, and \$3,132 respectively; 45 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty and thirty days of vacation per year, respectively. Accumulated unused vacation time is paid to classified employees, the superintendent, and the treasurer upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred fifteen days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days for all employees.

B. Health Care Benefits

The School District offers medical and dental insurance to most employees through the Mercer Auglaize School Employee Benefit Trust. In addition, the School District offers life insurance through MetLife Insurance Company.

13. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2008 were as follows:

	Balance at 6/30/07	Additions	Reductions	Balance at 6/30/08	Amounts Due Within One Year
Governmental Activities					
General Obligations Bonds					
1998 High School Building					
Serial Bonds 4.00 - 5.00%	\$ 550,000		\$45,000	\$ 505,000	\$ 80,000
Capital Appreciation Bonds	39,768			39,768	
Total 1998 High School Bldg.	<u>589,768</u>		<u>45,000</u>	<u>544,768</u>	<u>80,000</u>
2007 OSFC Building					
Serial Bonds 4%	860,000			860,000	65,000
Term Bonds 4 - 4.125%	1,085,000			1,085,000	
Capital Appreciation Bonds	54,999			54,999	
Total 2007 OSFC Building	<u>1,999,999</u>			<u>1,999,999</u>	<u>65,000</u>
2007 High School Refunding					
Serial Bonds 4%	560,000		25,000	535,000	15,000
Term Bonds 4 - 4.125%	595,000			595,000	
Capital Appreciation Bonds	79,998			79,998	
Total 2007 High School Refunding	<u>1,234,998</u>		<u>25,000</u>	<u>1,209,998</u>	<u>15,000</u>
Total General Obligation Bonds	<u>\$3,824,765</u>	<u>\$0</u>	<u>\$70,000</u>	<u>\$3,754,765</u>	<u>\$160,000</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

High School Building General Obligation Bonds - On March 20, 1998, the School District issued \$1,999,768 in voted general obligation bonds for constructing an addition to their existing instructional building. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$725,000, \$1,235,000, and \$39,768, respectively. The bonds were issued for a twenty-seven year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy. The term bonds were advance refunded during fiscal year 2007, in the amount of \$1,235,000. Final maturity for the unrefunded serial and capital appreciation bonds was adjusted to fiscal year 2017.

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

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

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount of the bonds is \$345,000.

2007 OSFC Building General Obligation Bonds - On March 28, 2007, the School District issued \$1,999,999 in voted general obligation bonds to renovate, improve, expand, furnish, and equip the current school facilities. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$860,000, \$1,085,000, and \$54,999, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2030. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 3.3 mill voted property tax levy.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$105,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2021	\$105,000

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$115,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$110,000

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

The term bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2025 through 2028 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2029), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2025	\$115,000
2026	130,000
2027	130,000
2028	135,000

The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$170,000.

2007 High School Refunding General Obligation Bonds - On March 28, 2007, the School District issued \$1,234,998 in voted general obligation bonds to refund \$1,235,000 of the High School Building general obligation bonds. The refunding bond issue included serial, term, and capital appreciation bonds, in the amount of \$560,000, \$595,000, and \$79,998, respectively. The bonds were issued for an eighteen year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$155,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2021	\$145,000

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$160,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2023	\$155,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District, in the amount of \$135,000.

The serial bonds maturing after December 1, 2017, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2008, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$265,000.

At June 30, 2008, \$1,235,000 of the refunded bonds was still outstanding.

The School District's overall debt margin was \$227,300 with an unvoted debt margin of \$40,561 at June 30, 2008.

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2009	\$ 160,000	\$ 76,975		\$ 68,012
2010	180,000	69,495		68,013
2011	185,000	61,345		68,012
2012	195,000	52,773		68,013
2013	205,000	43,675		68,012
2014-2018	290,000	154,800		340,063
2019-2023	685,000	42,100	\$ 510,000	319,862
2024-2028			895,000	131,878
2029-2030			275,000	11,447
Totals	\$1,900,000	\$501,163	\$1,680,000	\$1,143,312

Fiscal Year Ending	General Obligation Bonds Capital Appreciation	
	Principal	Interest
	2014-2018	\$174,765

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

14. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2008, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2008.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

14. SET ASIDES (Continued)

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2007	\$46,496	(\$1,998,403)	\$13,663
Current Year Set Aside Requirement	69,994	69,994	
Current Year Offsets			
Permanent Improvements		(35,910)	
Qualifying Expenditures	(82,275)	(6,149)	
Balance June 30, 2008	<u>\$34,215</u>	<u>(\$1,970,468)</u>	<u>\$13,663</u>

15. INTERFUND TRANSFERS

During fiscal year 2008, the General Fund transferred \$111,650 to the Ohio School Facilities capital projects fund for costs associated with the local share of the project and \$100,117 to other governmental funds for costs associated with the locally funded initiatives.

Other governmental funds transferred \$21,778 to other governmental funds to fund the Ohio School Facilities maintenance requirement.

16. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$114 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

17. JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2008, the School District paid \$25,182 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

C. Auglaize County Educational Academy

The School District is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

D. Auglaize County Special Needs School

The School District is a participant in the Auglaize County Special Needs School (ACSNS), which is a community school. The ACSNS is an association of the school districts within Auglaize County to provide a special education program for kindergarten through twelfth grade students with multiple handicapped, emotionally disturbed, or autistic needs. The governing board of the ACSNS consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

18. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

18. INSURANCE POOLS (Continued)

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

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

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

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

20. SUBSEQUENT EVENT

On September 23, 2008, the School District entered into a loan arrangement, in the amount of \$900,000, for ten years at an interest rate of 4.47 percent, to fund the locally funded initiatives.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of New Knoxville Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

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 School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

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.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For New Knoxville Local School District, the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities capital projects fund are the most significant funds.

Reporting The School District As A Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. 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 School District's general receipts.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities including instruction, support services, non-instructional services, extracurricular activities, capital outlay, and debt service disbursements.

Reporting The School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities capital projects fund.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs.

The School District As A Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 and fiscal year 2006:

	Table 1		
	Net Assets		
	Governmental Activities		Variance
2007	2006		
Assets:			
Current and Other Assets	<u>\$6,177,007</u>	<u>\$4,170,807</u>	<u>\$2,006,200</u>
Net Assets:			
Restricted	4,169,029	2,735,523	1,433,506
Unrestricted	<u>2,007,978</u>	<u>1,435,284</u>	<u>572,694</u>
Total Net Assets	<u>\$6,177,007</u>	<u>\$4,170,807</u>	<u>\$2,006,200</u>

Total net assets increased \$2,006,200, or 148 percent. The increase is due to the receipt of Ohio School Facilities Commission grants in fiscal year 2007, in the amount of \$1,822,102 as well as interest earned on these funds. In addition, the School District earned interest on debt proceeds.

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

**Table 2
Changes in Net Assets**

	Governmental Activities		Variance
	2007	2006	
Receipts:			
Program Receipts:			
Charges for Services	\$ 522,560	\$ 470,400	\$ 52,160
Operating Grants, Contributions and Interest	334,466	375,931	(41,465)
Capital Grants and Contributions	2,588	17,581	(14,993)
Total Program Receipts	<u>859,614</u>	<u>863,912</u>	<u>(4,298)</u>
General Receipts:			
Property Taxes levied for General Purposes	1,142,018	1,091,620	50,398
Property Taxes Levied for Debt Service	169,489	86,687	82,802
Property Taxes Levied for Permanent Improvements	38,952	33,468	5,484
Income Taxes	486,703	345,493	141,210
Grants and Entitlements	3,714,871	1,854,034	1,860,837
Interest	165,083	47,848	117,235
Notes Issued		2,000,000	(2,000,000)
General Obligation Refunding Bonds Issued	1,234,998		1,234,998
General Obligation Bonds Issued	1,999,999		1,999,999
Premium on General Obligation Refunding Bonds	96,145		96,145
Premium on General Obligation Bonds	70,524		70,524
Miscellaneous	20,738	3,154	17,584
Total General Receipts	<u>9,139,520</u>	<u>5,462,304</u>	<u>3,677,216</u>
Total Receipts	<u>9,999,134</u>	<u>6,326,216</u>	<u>3,672,918</u>
Disbursements:			
Instruction:			
Regular	1,953,899	1,824,963	(128,936)
Special	264,460	287,982	23,522
Support Services:			
Pupils	100,076	102,216	2,140
Instructional Staff	152,347	156,748	4,401
Board of Education	24,060	27,522	3,462
Administration	415,759	407,191	(8,568)
Fiscal	141,759	115,893	(25,866)
Operation and Maintenance of Plant	338,567	299,681	(38,886)
Pupil Transportation	72,068	114,699	42,631
Central	50,083	49,510	(573)
Non-instructional Services	106,039	100,686	(5,353)
Extracurricular Activities	239,499	232,167	(7,332)
Capital Outlay	537,824	7,830	(529,994)
Intergovernmental		1,316	1,316
Debt Service:			
Principal Retirement	2,040,000	25,000	(2,015,000)
Payment to Refunded Bond Escrow Agent	1,288,075		(1,288,075)
Interest and Fiscal Charges	154,828	92,450	(62,378)
Issuance Costs	106,649		(106,649)
Discount on General Obligation Bonds	6,942		(6,942)
Total Disbursements	<u>7,992,934</u>	<u>3,845,854</u>	<u>(4,147,080)</u>
Increase in Net Assets	2,006,200	2,480,362	(474,162)
Net Assets at Beginning of Year	4,170,807	1,690,445	2,480,362
Net Assets at End of year	<u>\$6,177,007</u>	<u>\$4,170,807</u>	<u>\$2,006,200</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The most significant receipts during fiscal year 2007 were from the issuance of the general obligation bonds to pay off the bond anticipation notes, general obligation refunding bonds to refund the term bonds of the High School general obligation bonds, and the receipt of the Ohio School Facilities Commission grant. These receipts totaled \$5,216,826, or 52 percent of total receipts.

Program receipts decreased slightly in fiscal year 2007. Program receipts are primarily represented by restricted intergovernmental receipts, tuition, fees, charges for extracurricular activities, and food service sales.

General receipts represent 91 percent of the School District's total receipts, and, of this amount, almost 41 percent is the result of unrestricted grants and entitlements, which primarily represents State foundation resources. Property and income taxes basically make up the balance of the School District's general receipts. Other receipts, such as interest and miscellaneous receipts are very insignificant and somewhat unpredictable receipt sources.

Disbursements for instruction and support services did not increase significantly. Instruction disbursements were approximately 28 percent of total disbursements. Other programs which support the instruction process including pupils, instructional staff, pupil transportation, and central account for approximately 5 percent of governmental disbursements. Maintenance of the School District's facilities represents an additional 4 percent of program disbursements.

During 2007, capital outlay increased significantly from renovating the school building with the proceeds of debt and the grant from the Ohio School Facilities Commission.

The most significant increases in disbursements were from the retirement of the bond anticipation notes, in the amount of \$2,000,000, and making payments to the refunded bond escrow agent relating to the term bonds refunded from the High School general obligation bonds, in the amount of \$1,288,075. The principal increase in the overall total disbursements pertained to these two transactions during fiscal year 2007.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$1,953,899	\$1,824,963	\$1,671,082	\$1,592,610
Special	264,460	287,982	13,955	(23,733)
Vocational			(22,664)	(23,201)
Support Services:				
Pupils	100,076	102,216	95,076	98,961
Instructional Staff	152,347	156,748	152,347	156,748
Board of Education	24,060	27,522	24,060	27,522
Administration	415,759	407,191	415,759	407,191
Fiscal	141,759	115,893	141,759	115,893

(Continued)

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

**Table 3
Governmental Activities
(Continued)**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Support Services: (Continued)				
Operation and Maintenance of Plant	338,567	299,681	327,608	296,081
Pupil Transportation	72,068	114,699	67,209	94,007
Central	50,083	49,510	44,083	43,510
Non-instructional Services	106,039	100,686	(17,277)	(20,097)
Extracurricular Activities	239,499	232,167	86,005	89,854
Capital Outlay	537,824	7,830	537,824	7,830
Intergovernmental		1,316		1,316
Debt Service:				
Principal Retirement	2,040,000	25,000	2,040,000	25,000
Payment to Refunded Bond Escrow Agent	1,288,075		1,288,075	
Interest and Fiscal Charges	154,828	92,450	154,828	92,450
Issuance Costs	106,649		106,649	
Discount on General Obligation Bonds	6,942		6,942	
Total Disbursements	<u>\$7,992,934</u>	<u>\$3,845,854</u>	<u>\$7,133,320</u>	<u>\$2,981,942</u>

The above table indicates that only 11 percent of the cost of services is financed through user charges and grants awarded for specific programs. The remaining 89 percent of total cost of services is financed through property taxes, income taxes, and unrestricted grants and entitlements. During 2007, the total cost of services were also financed with bond proceeds to retire the bond anticipation notes and refund the term bonds of the High School general obligation bonds.

The most significant program receipts from restricted grants are associated with special instruction and vocational instruction. Other material program receipts were received for noninstructional services which consist of food service and extracurricular programs consisting of sport-related and trip charges that are received to finance these activities. Food service also receives federal and state funds for providing meals to students.

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities capital projects fund. Fund balance increased in the General Fund from receipts increasing by 8 percent while disbursements only increased by 5 percent.

Fund balance in the Bond Retirement debt service fund decreased slightly from the prior fiscal year.

The Ohio School Facilities capital projects fund balance increased from the receipt of grants. Disbursements consisted principally of architectural fees.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of July. The School District's most significant budgeted fund is the General Fund.

For the General Fund, final budgeted revenues did not change from the School District's original estimates. Changes from the final budget to actual receipts received were not significant.

For expenditures, changes from budgeted appropriations did not change from the School District's original estimate. Changes from the final budget to actual disbursements were not significant.

Current Issues

The School District became eligible for partial funding of renovations to their instructional building through the Ohio School Facilities Commission. Based on changes in legislation, the permanent improvement property tax levy is to transfer \$21,778 into the OSFC Maintenance special revenue fund each year to fund the required .5 mill maintenance requirement. The voters passed a 3.3 mill property tax levy for twenty-three years to fund \$1,999,999 of the School District's portion of the renovation project in May 2006. The property tax receipts began collection on January 1, 2007.

The voters also passed a .25 percent income tax for twenty-three years to begin on January 1, 2007, to generate \$1,200,000 for general operating costs. The income tax revenues generated in fiscal year 2007 were used to partially fund the locally funded initiatives of the school renovation project.

The renovation project is approximately 85 percent complete. The renovation project consists of replacing the wiring, heating, air conditioning, and ventilation of the instructional building. The project encloses the open space between the gymnasium and the industrial tech department to allow for a better entrance to events held in the gymnasium, additional office space, and a conference room. Two additional classrooms will be added to the west side of the elementary wing. The bus garage was demolished in November 2006. The parking lot will be excavated and paved to create additional parking space. Construction should be completed in January 2009.

The School District entered into a leasing arrangement, in the amount of \$900,000, on September 23, 2008, with an interest rate of 4.47 percent to fund the locally funded initiatives of the project.

Request For Information

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Marcia Wierwille, Treasurer, 345 South Main Street, New Knoxville, Ohio 45871.

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$6,177,007</u>
Net Assets	
Restricted for:	
Debt Service	305,285
Capital Projects	3,533,797
Other Purposes	269,788
Setasides	60,159
Unrestricted	<u>2,007,978</u>
Total Net Assets	<u>\$6,177,007</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Program Cash Receipts</u>			Net (Disbursement) Receipt and Change in Net Assets	
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities					
Instruction:					
Regular	\$1,953,899	\$265,150	\$17,667		(\$1,671,082)
Special	264,460		250,505		(13,955)
Vocational			22,664		22,664
Support Services:					
Pupils	100,076		5,000		(95,076)
Instructional Staff	152,347				(152,347)
Board of Education	24,060				(24,060)
Administration	415,759				(415,759)
Fiscal	141,759				(141,759)
Operation and Maintenance of Plant	338,567		10,959		(327,608)
Pupil Transportation	72,068		2,271	\$2,588	(67,209)
Central	50,083		6,000		(44,083)
Non-instructional Services	106,039	104,516	18,800		17,277
Extracurricular Activities	239,499	152,894	600		(86,005)
Capital Outlay	537,824				(537,824)
Debt Service:					
Principal Retirement	2,040,000				(2,040,000)
Payment to Refunded Bond Escrow Agent	1,288,075				(1,288,075)
Interest and Fiscal Charges	154,828				(154,828)
Issuance Costs	106,649				(106,649)
Discount on General Obligation Bonds Issued	6,942				(6,942)
Total Governmental Activities	<u>\$7,992,934</u>	<u>\$522,560</u>	<u>\$334,466</u>	<u>\$2,588</u>	<u>(7,133,320)</u>

General Receipts

Property Taxes Levied for:

General Purposes	1,142,018
Debt Service	169,489
Permanent Improvements	38,952
Income Taxes	486,703
Grants and Entitlements Not Restricted to Specific Programs	3,714,871
Interest	165,083
General Obligation Refunding Bonds Issued	1,234,998
General Obligation Bonds Issued	1,999,999
Premium on General Obligation Refunding Bonds Issued	96,145
Premium on General Obligation Bonds Issued	70,524
Miscellaneous	20,738
Total General Receipts	<u>9,139,520</u>

Change in Net Assets 2,006,200

Net Assets at Beginning of Year 4,170,807

Net Assets at End of Year \$6,177,007

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,007,979	\$305,285	\$3,421,653	\$364,857	\$6,099,774
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	<u>77,233</u>				<u>77,233</u>
Total Assets	<u><u>2,085,212</u></u>	<u><u>305,285</u></u>	<u><u>3,421,653</u></u>	<u><u>364,857</u></u>	<u><u>6,177,007</u></u>
Fund Balances					
Reserved for Textbooks	46,496				46,496
Reserved for Budget Stabilization	13,663				13,663
Reserved for Bus Purchases	17,075				17,075
Reserved for Encumbrances	13,700	100	115,990	11,291	141,081
Unreserved, Reported in					
General Fund	1,994,278				1,994,278
Special Revenue Funds				246,472	246,472
Debt Service Fund		305,185			305,185
Capital Projects Funds			3,305,663	107,094	3,412,757
Total Fund Balances	<u><u>\$2,085,212</u></u>	<u><u>\$305,285</u></u>	<u><u>\$3,421,653</u></u>	<u><u>\$364,857</u></u>	<u><u>\$6,177,007</u></u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Bond Retirement</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts					
Property Taxes	\$1,142,018	\$169,489		\$38,952	\$1,350,459
Income Taxes	486,703				486,703
Intergovernmental	2,041,976	16,632	\$1,822,102	168,582	4,049,292
Interest	82,550		82,533	2,033	167,116
Tuition and Fees	265,150				265,150
Charges for Services				104,516	104,516
Extracurricular Activities				152,894	152,894
Gifts and Donations				600	600
Miscellaneous	20,486			252	20,738
Total Receipts	<u>4,038,883</u>	<u>186,121</u>	<u>1,904,635</u>	<u>467,829</u>	<u>6,597,468</u>
Disbursements					
Current:					
Instruction:					
Regular	1,939,036			14,863	1,953,899
Special	162,302			102,158	264,460
Support Services:					
Pupils	95,199			4,877	100,076
Instructional Staff	152,347				152,347
Board of Education	24,060				24,060
Administration	414,941			818	415,759
Fiscal	137,613	3,140	263	743	141,759
Operation and Maintenance of Plant	318,416			20,151	338,567
Pupil Transportation	72,068				72,068
Central	39,064			11,019	50,083
Non-instructional Services				106,039	106,039
Extracurricular Activities	109,549			129,950	239,499
Capital Outlay			478,627	59,197	537,824
Debt Service:					
Principal Retirement		2,040,000			2,040,000
Interest and Fiscal Charges		154,828			154,828
Issuance Costs		106,649			106,649
Total Disbursements	<u>3,464,595</u>	<u>2,304,617</u>	<u>478,890</u>	<u>449,815</u>	<u>6,697,917</u>
Excess of Receipts Over (Under) Disbursements	<u>574,288</u>	<u>(2,118,496)</u>	<u>1,425,745</u>	<u>18,014</u>	<u>(100,449)</u>
Other Financing Sources (Uses)					
General Obligation Refunding Bonds Issued		1,234,998			1,234,998
General Obligation Bonds Issued		1,999,999			1,999,999
Premium on General Obligation Refunding Bonds Issued		96,145			96,145
Premium on General Obligation Bonds Issued		70,524			70,524
Discount on General Obligation Bonds Issued		(6,942)			(6,942)
Payment to Refunded Bond Escrow Agent		(1,288,075)			(1,288,075)
Transfers In	4,750			34,912	39,662
Transfers Out	(12,836)	(298)	(4,750)	(21,778)	(39,662)
Advances In	341			415	756
Advances Out	(415)			(341)	(756)
Total Other Financing Sources (Uses)	<u>(8,160)</u>	<u>2,106,351</u>	<u>(4,750)</u>	<u>13,208</u>	<u>2,106,649</u>
Changes in Fund Balances	566,128	(12,145)	1,420,995	31,222	2,006,200
Fund Balances at Beginning of Year	<u>1,519,084</u>	<u>317,430</u>	<u>2,000,658</u>	<u>333,635</u>	<u>4,170,807</u>
Fund Balances at End of Year	<u>\$2,085,212</u>	<u>\$305,285</u>	<u>\$3,421,653</u>	<u>\$364,857</u>	<u>\$6,177,007</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DSITRICT
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Receipts				
Property Taxes	\$1,165,280	\$1,165,280	\$1,142,018	(\$23,262)
Income Taxes	482,836	482,836	486,703	3,867
Intergovernmental	2,033,818	2,033,818	2,041,976	8,158
Interest	90,107	90,107	82,550	(7,557)
Tuition and Fees	252,000	252,000	265,150	13,150
Miscellaneous	10,150	10,150	20,486	10,336
Total Receipts	<u>4,034,191</u>	<u>4,034,191</u>	<u>4,038,883</u>	<u>4,692</u>
Disbursements				
Current:				
Instruction:				
Regular	1,976,900	1,974,605	1,955,719	18,886
Special	157,840	180,910	162,302	18,608
Support Services:				
Pupils	98,065	98,065	95,199	2,866
Instructional Staff	158,255	154,605	152,347	2,258
Board of Education	33,500	28,660	25,451	3,209
Administration	409,970	418,470	415,041	3,429
Fiscal	148,790	145,033	138,758	6,275
Operation and Maintenance of Plant	303,400	327,945	322,486	5,459
Pupil Transportation	92,700	78,350	72,068	6,282
Central	55,000	40,415	39,074	1,341
Extracurricular Activities	86,600	110,240	109,549	691
Total Disbursements	<u>3,521,020</u>	<u>3,557,298</u>	<u>3,487,994</u>	<u>69,304</u>
Excess of Receipts Over Disbursements	<u>513,171</u>	<u>476,893</u>	<u>550,889</u>	<u>73,996</u>
Other Financing Sources (Uses)				
Transfers In			4,750	4,750
Transfers Out		(12,836)	(12,836)	
Advances In	341	341	341	
Advances Out		(415)	(415)	
Total Other Financing Sources (Uses)	<u>341</u>	<u>(12,910)</u>	<u>(8,160)</u>	<u>4,750</u>
Changes in Fund Balance	513,512	463,983	542,729	78,746
Fund Balance at Beginning of Year	1,496,741	1,496,741	1,496,741	
Prior Year Encumbrances Appropriated	<u>21,894</u>	<u>21,894</u>	<u>21,894</u>	
Fund Balance at End of Year	<u>\$2,032,147</u>	<u>\$1,982,618</u>	<u>\$2,061,364</u>	<u>\$78,746</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,000	\$14,650
Total Assets	<u>10,000</u>	<u>14,650</u>
Net Assets		
Endowments	10,000	
Held for Students		14,650
Total Net Assets	<u>\$10,000</u>	<u>\$14,650</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH BASIS CHANGE IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Additions

Interest	\$340
Miscellaneous	<u>160</u>
Total Receipts	500

Deductions

Non-instructional Services	<u>500</u>
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Change in Net Assets

Net Assets at Beginning of Year	<u>10,000</u>
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Net Assets at End of Year	<u><u>\$10,000</u></u>
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See accompanying notes to the basic financial statements.

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

New Knoxville Local School District (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 Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. The School District is the 600th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by eighteen classified employees, thirty-three certified teaching personnel, and five administrative employees who provide services to 449 students and other community members. The School District currently operates one school building.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For New Knoxville 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 organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the New Knoxville Local School District.

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This 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. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

During the fiscal 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. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund, the Bond Retirement debt service fund, and the Ohio School Facilities capital projects fund.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Retirement Fund - The Bond Retirement debt service fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the high school and Ohio School Facilities Commission building general obligation bonds.

Ohio School Facilities Fund - The Ohio School Facilities capital projects fund is used to account for the renovation of the School District's building. The project is being funded with local taxes and a grant from the Ohio School Facilities Commission.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is the fund level for all funds. Budgetary allocations at the function and object level in all funds are made by the Treasurer.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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 are the same as the original because the Board was not presented with supplemental appropriations until July 2007, after the fiscal year end.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2007, investments consisted of federal agency securities, mutual funds, nonnegotiable certificates of deposit, repurchase agreements, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2007 was \$82,550, which includes \$18,982 assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool 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.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the purchase of textbooks and instructional materials, for budget stabilization, and for unexpended revenues restricted for bus purchases.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Interfund Balances

On fund financial statements, short-term interfund loans are classified as "Advances In/Out". Interfund balances within governmental activities are eliminated on the statement of net assets.

I. Compensated Absences

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.

J. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. The School District did not have any net assets restricted by enabling legislation at June 30, 2007.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for textbooks, budget stabilization, bus purchases, and encumbrances.

3. COMPLIANCE

The District had expenditures in excess of appropriations at June 30, 2007 for the Public School Support fund (\$2,708), EMIS (\$714), OSFC LFI – Bldg fund (\$59,197), Replacement Fund (\$10,246), Bond Retirement fund (\$2,171,259) and Food Service fund (9,487).

The District did not establish Fund 004 to account for the LFI portion of their OSFC project, had various funds with deficit fund balances, did not record or budget receipts and disbursements of the construction manager, and post various activity to the correct funds.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

Interim monies held by the School District may be deposited or invested in the following securities:

8. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
9. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
10. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
11. Bonds and other obligations of the State of Ohio or Ohio local governments;
12. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
13. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
14. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within two 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.

A. Investments

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	\$ 121,055	38.56 Days Average
Mutual Fund	9,929	35 Days Average
Federal National Mortgage Association Notes	579,052	April 11, 2008
Federal Home Loan Mortgage Corporation Notes	498,498	February 21, 2009
Federal Home Loan Bank Bonds	99,400	February 15, 2008
Federal Home Loan Bank Bonds	197,331	July 23, 2008
Federal Home Loan Bank Bonds	692,393	July 30, 2008
Repurchase Agreement	3,351,234	July 1, 2007
Total Investments	<u>\$5,548,892</u>	

A significant portion of these investments are in the Ohio School Facilities capital projects fund as presented below:

	<u>Ohio School Facilities</u>
Mutual Fund	\$ 9,929
Federal National Mortgage Association Notes	579,052
Federal Home Loan Mortgage Corporation Notes	498,498
Federal Home Loan Bank Bonds	989,124
Total	<u>\$2,076,603</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the School District. The maturity date for repurchase agreements must not exceed thirty days.

STAR Ohio and the mutual fund carry a rating of AAAM by Standard and Poor's. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and Home Loan Bank Bonds carry a rating of Aaa by Moodys. The securities underlying the repurchase agreement, included Federal Home Loan Bank Bonds, Federal Home Loan Bank Notes, and Federal National Mortgage Association Notes, all with a rating of Aaa by Moodys. The School District has no investment policy for credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The market value of securities subject to the repurchase agreement must exceed the principal of the agreement by at least 2 percent and must be marked to market daily.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

For an investment, custodial credit risk is the risk that, in the event of 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 repurchase agreements are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute.

The following table indicates the percentage of each investment to the total portfolio:

	<u>Carrying Value</u>	<u>Percentage of Portfolio</u>
Federal National Mortgage Association Notes	\$579,052	10.44%
Federal Home Loan Mortgage Corporation Notes	498,498	8.98
Federal Home Loan Bank Bonds	989,124	17.83

5. INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. One percent of the tax levy was effective on January 1, 2005, for a five-year period and .25 percent was effective on January 1, 2007, for a twenty-three year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

6. 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 tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. 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.

The School District receives property taxes from Auglaize and Shelby 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.

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$39,625,980	92.31%	\$39,839,950	91.86%
Public Utility	1,061,390	2.47	1,065,880	2.46
Tangible Personal	2,240,395	5.22	2,464,661	5.68
Total Assessed Value	<u>\$42,927,765</u>	<u>100.00%</u>	<u>\$43,370,491</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.65		\$53.95	

On May 2, 2006, the voters passed a 3.3 mill property tax levy for the issuance of bonds to renovate the School District's instructional building.

7. INTERFUND BALANCES

At June 30, 2007, the General Fund had an unpaid interfund cash advance, in the amount of \$415, to other governmental funds to provide cash flow resources until the receipt of grant monies.

8. RISK MANAGEMENT

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.

During fiscal year 2007, the School District contracted with Indiana Insurance Company for the following insurance coverage.

General Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	12,419,000
Automobile Liability	1,000,000
Excess Liability	1,000,000

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. RISK MANAGEMENT (Continued)

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

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

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

9. CONTRACTUAL OBLIGATIONS

As of June 30, 2007, the School District had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Williams Scotsman	Modulars Lease	\$79,642
Stan and Associates	Construction Manager	23,906
Brumbaugh-Herrick	Asbestos Consulting	12,300

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005 was \$211,572, \$207,389, and \$196,115, respectively; 82 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$5,138 made by the School District and \$8,546 made by plan members.

B. 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 was \$43,492, \$42,480, and \$37,842, respectively; 42 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2007, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POST-EMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$16,670.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000, and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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 2007, the minimum pay was established at \$35,800. However, the surcharge amount is capped at 2 percent of the School District's salaries. For the School District, the amount to fund health care benefits, including the surcharge, was \$19,603 for fiscal year 2007.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. POST-EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest available information), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty and thirty days of vacation per year, respectively. Accumulated unused vacation time is paid to classified employees, the superintendent, and the treasurer upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-five days for all employees.

B. Health Care Benefits

The School District offers medical and dental insurance to most employees through the Mercer Auglaize School Employee Benefit Trust. In addition, the School District offers life insurance through CoreSource Insurance Agency.

13. NOTES PAYABLE

On June 14, 2006, the School District issued bond anticipation notes, in the amount of \$2,000,000. The notes had an interest rate of 4.45 percent and matured on April 12, 2007. The notes were issued to renovate the instructional building.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS

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

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07	Amounts Due Within One Year
Governmental Activities					
General Obligations Bonds					
1998 High School Building					
Serial Bonds 4.00 - 5.00%	\$ 590,000		\$ 40,000	\$ 550,000	\$45,000
Term Bonds 5.125%	1,235,000		1,235,000		
Capital Appreciation Bonds	39,768			39,768	
Total 1998 High School Bldg.	<u>1,864,768</u>		<u>1,275,000</u>	<u>589,768</u>	<u>45,000</u>
2007 OSFC Building					
Serial Bonds 4%		\$ 860,000		860,000	
Term Bonds 4 - 4.125%		1,085,000		1,085,000	
Capital Appreciation Bonds		54,999		54,999	
Total 2007 OSFC Building		<u>1,999,999</u>		<u>1,999,999</u>	
2007 High School Refunding					
Serial Bonds 4%		560,000		560,000	25,000
Term Bonds 4 - 4.125%		595,000		595,000	
Capital Appreciation Bonds		79,998		79,998	
Total 2007 High School Refunding		<u>1,234,998</u>		<u>1,234,998</u>	<u>25,000</u>
Total General Obligation Bonds	<u>\$1,864,768</u>	<u>\$3,234,997</u>	<u>\$1,275,000</u>	<u>\$3,824,765</u>	<u>\$70,000</u>

High School Building General Obligation Bonds - On March 20, 1998, the School District issued \$1,999,768 in voted general obligation bonds for constructing an addition to their existing instructional building. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$725,000, \$1,235,000, and \$39,768, respectively. The bonds were issued for a twenty-seven year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy. The term bonds were advance refunded during fiscal year 2007, in the amount of \$1,235,000. Final maturity for the unrefunded serial and capital appreciation bonds was adjusted to fiscal year 2017.

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

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

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount of the bonds is \$345,000. For fiscal year 2007, \$16,133 was accreted for a total bond value of \$132,620.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

2007 OSFC Building General Obligation Bonds - On March 28, 2007, the School District issued \$1,999,999 in voted general obligation bonds to renovate, improve, expand, furnish, and equip the current school facilities. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$860,000, \$1,085,000, and \$54,999, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2030. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 3.3 mill voted property tax levy.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$105,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2021	\$105,000

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$115,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$110,000

The term bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2025 through 2028 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2029), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2025	\$115,000
2026	130,000
2027	130,000
2028	135,000

The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$170,000. For fiscal year 2007, nothing was accreted.

2007 High School Refunding General Obligation Bonds - On March 28, 2007, the School District issued \$1,234,998 in voted general obligation bonds to refund \$1,235,000 of the High School Building general obligation bonds. The refunding bond issue included serial, term, and capital appreciation bonds, in the amount of \$560,000, \$595,000, and \$79,998, respectively. The bonds were issued for an eighteen year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

The net proceeds, including a premium of \$96,145, of \$1,288,075 (after payment of \$43,068 in underwriting fees, insurance, and other issuance costs) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded general obligation bonds. As a result, \$1,235,000 of the High School Building general obligation bonds is considered to be defeased and the liability for those bonds has been removed from the School District's long-term obligations.

Although the refunding resulted in the recognition of an accounting loss of \$53,075, the School District in effect lowered its aggregated debt service payments by \$99,990 over the next eighteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$72,157.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$155,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2021	\$145,000

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$160,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2023	\$155,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District, in the amount of \$135,000.

The serial bonds maturing after December 1, 2017, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2008, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds will mature in fiscal years 2017 and 2018. The maturity amount of the bonds is \$265,000. For fiscal year 2007, \$4,068 was accreted for a total bond value of \$84,066.

At June 30, 2007, \$1,235,000 of the refunded bonds was still outstanding.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$66,116 with an unvoted debt margin of \$39,840 at June 30, 2007.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2008	\$ 70,000	\$ 82,001		\$ 68,013
2007	160,000	76,975		68,012
2010	180,000	69,495		68,013
2011	185,000	61,345		68,012
2012	195,000	52,773		68,013
2013-2017	495,000	171,075		340,062
2018-2022	685,000	69,500	\$ 250,000	335,063
2023-2027			1,025,000	170,666
2028-2030			405,000	25,471
Totals	<u>\$1,970,000</u>	<u>\$583,164</u>	<u>\$1,680,000</u>	<u>\$1,211,325</u>

Fiscal Year Ending	General Obligation Bonds Capital Appreciation	
	Principal	Interest
	2008	
2009		
2010		
2011		
2012		
2013-2017	\$111,108	\$448,892
2018-2022	63,657	151,343
Totals	<u>\$174,765</u>	<u>\$600,235</u>

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

15. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2007, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

15. SET ASIDES (Continued)

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Balance June 30, 2006	\$43,362	\$ 15,108	\$13,663
Current Year Set Aside Requirement	67,877	67,877	
Current Year Offsets			
Permanent Improvements		(38,952)	
Bond Proceeds		(1,999,999)	
Qualifying Expenditures	(64,743)	(42,437)	
Balance June 30, 2007	<u>\$46,496</u>	<u>(\$1,998,403)</u>	<u>\$13,663</u>

The School District had current year offsets during the fiscal year that reduced the capital improvements setaside amount below zero. This amount may be used to reduce the set aside requirement of future fiscal years.

16. INTERFUND TRANSFERS

The General Fund transferred \$12,836 to the Ohio School Facilities capital projects fund for costs associated with the locally funded initiatives.

The Bond Retirement debt service fund transferred \$298 to the other governmental funds to reimburse various funds.

The Ohio School Facilities capital projects fund transferred \$4,750 to the General Fund to reimburse for costs pertaining to the project in prior fiscal years.

Other governmental funds transferred \$21,778 to other governmental funds to fund the Ohio School Facilities maintenance requirement.

17. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. There was no amount available for expenditures by the School District at June 30, 2007. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

18. JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

D. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2007, the School District paid \$19,755 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

E. Auglaize County Educational Academy

The School District is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS (Continued)

F. Auglaize County Special Needs School

The School District is a participant in the Auglaize County Special Needs School (ACSNS), which is a community school. The ACSNS is an association of the school districts within Auglaize County to provide a special education program for kindergarten through twelfth grade students with multiple handicapped, emotionally disturbed, or autistic needs. The governing board of the ACSNS consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

19. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

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

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

20. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

21. SUBSEQUENT EVENT

On September 23, 2008, the School District entered into a leasing arrangement, in the amount of \$900,000, for ten years at an interest rate of 4.47 percent.

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Mary Taylor, CPA

Auditor of State

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

New Knoxville Local School District
Auglaize County
345 S. Main Street P.O. Box 476
New Knoxville, Ohio 45871

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Knoxville Local School District, Auglaize County, (the School District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Government's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Government's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-002 through 2008-009 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2008-002, 2008-004 through 2008-009 are also material weaknesses.

We noted certain matters that we reported to the School District's management in a separate letter dated April 17, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings items 2008-001 through 2008-008.

We also noted certain noncompliance or other matters not required inclusion in this report that we reported to the School District's management in a separate letter dated April 17, 2009.

The School District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management and the Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 17, 2009

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

SCHEDULE OF FINDINGS
FOR FISCAL YEARS JUNE 30, 2008 AND JUNE 30, 2007

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

FINDING NUMBER 2008-001

NONCOMPLIANCE CITATION

Ohio Rev. 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 Adm. Code Section 117-2-03(B) states that all counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles. The New Knoxville Local School District did not prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. 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.

In fiscal year 2007 the District filed GAAP statements, but they were filed 11 months late. In fiscal year 2008, the District did not file GAAP statements.

The District should prepare its annual financial statements in accordance with generally accepted accounting principles to present financial statements that include assets, liabilities and the disclosures required to accurately present the District's financial condition.

Client Response:

In fiscal year 2007 the reports were filed late due to the compilation of the reports being so late. These were compiled late because of so many complications from the OSFC building project. Many adjustments had to be made before the report could be finalized. In fiscal year 2008 the district decided not to file GAAP due to the expense of the reports and also felt that the district doesn't have a real need for the GAAP reports. When the district secured their financing for the OSFC building project the GAAP reports didn't play a factor in the funding. The district treasurer does not have a support staff and does not have time to help prepare the GAAP reports nor does the district have the funds to pay for the GAAP reports.

FINDING NUMBER 2008-002

NONCOMPLIANCE CITATION - MATERIAL WEAKNESS

Ohio Rev. Code Section 5705.09 (F) states that each subdivision shall establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

The School District participated in the classroom facilities assistance program, which further requires that the district must account for the local initiative portion of the project in a separate fund (USAS fund 004), other than the project construction fund (USAS fund 010).

**FINDING NUMBER 2008-002
 (Continued)**

The School District posted the local initiative portion of the OSFC project to a special cost center within the OSFC construction fund (010), rather than establishing a separate fund (004) to account for this activity. An adjustment was made to the accompanying financial statements to include this fund. The District also made adjustments in fiscal year 2009 to include this fund in the records.

The School District should implement controls to establish new funds as required for specific new revenue sources.

Client Response:

The district treasurer did not know fund 004 had to be used instead of 010. Adjustments in fiscal year 2009 reflect this requirement.

FINDING NUMBER 2008-003

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.10(H), requires that monies paid into any fund shall be used only for the purposes such fund was established.

The existence of a deficit balance in any fund indicates that money from another fund or funds have been used to pay the obligations of the fund or funds carrying the deficit balance. Deficit fund balances were noted in the following months for the following funds throughout fiscal year 2007 and 2008:

Month	Fund	Amount
December 2006	004 Building Fund	(\$29,479)
March 2007	004 Building Fund	(\$42,982)
	516 IDEA-B Spec Ed Grant Fund	(13,070)
	572 Title I Grant Fund	(2,244)
	599 REAP Grant Fund	(3,091)
June 2007	004 Building Fund	(\$47,019)
December 2007	004 Building Fund	(\$409,972)
	516 IDEA-B Spec Ed Grant Fund	(38,739)
	572 Title I Grant Fund	(5,940)
March 2008	004 Building Fund	(\$560,590)
	516 IDEA-B Spec Ed Grant Fund	(61,346)
	572 Title I Grant Fund	(9,857)
	573 Title V Grant Fund	(603)
	584 Drug Free Grant Fund	(693)
June 2008	004 Building Fund	(\$694,808)

Ohio Rev. Code Section 3315.20 states that school district may have a deficit in any special fund if both of the following conditions are met:

- a) The district has a request for payment pending with the state sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made.
- b) The unspent and unencumbered balance in the district's general fund is greater than the aggregate of deficit amounts in all of the district's special funds.

**FINDING NUMBER 2008-003
(Continued)**

For the funds with negative fund balances listed above, exception (a) above was not met as pending requests for payment with the State were not always in place to eliminate the deficit.

The District should develop and implement procedures to monitor fund cash balances to avoid unallowable negative balances. When expenditures are anticipated to temporarily exceed available resources, the District should consider an advance from the General Fund.

Client Response:

Deficit fund balances for the 004 building fund were due to insufficient training from R.L. Bowen to the treasurer on the OSFC building project on proper fund classifications. Deficit fund balance for CCIP funds is due to the way the CCIP handles the PCR requests. You need to have spent funds in order to receive or request funds.

FINDING NUMBER 2008-004

NONCOMPLIANCE CITATION – MATERIAL WEAKNESS

Ohio Rev. Code Section 5705.14(E) states that money may be transferred from the general fund to any other fund of the subdivision, and **OAG Opinion 89-075** requires a governing board resolution passed by a simple majority of the board members to transfer funds.

During the Board meeting on June 23, 2008, the Board of Education approved advances and transfers “as presented” for fiscal year 2008; however, there was no evidence of any such presentation of advances and transfers.

The Treasurer made a transfer of \$300,000 from the General Fund to the OSFC Local Initiative Fund on June 30, 2008; which was not formally approved by the Board in a separate resolution. The failure to properly approve transfers could allow funds to be transferred contrary to the intent of the Board and also could permit funds to be expended contrary to law. An adjustment was made to delete the transfer in the accompanying financial statements and the \$300,000 was returned to the General Fund on the District records in fiscal year 2009.

The Board should review the statutory requirements of allowable transfers, and obtain proper approval for all transfers.

Client Response:

The district treasurer will obtain board approval of all transfers in the future.

FINDING NUMBER 2008-005

NONCOMPLIANCE CITATION - MATERIAL WEAKNESS

Ohio Rev. Code Section 5705.38(B) states, in part, that a board of education shall pass its annual appropriation measure by the first day of October. If, by the first day of October, a board has not received the amended certificate of estimated resources required, the adoption of the annual appropriation measure shall be delayed until the amended certificates are received.

**FINDING NUMBER 2008-005
 (Continued)**

The Auglaize County Budget Commission did not issue the fiscal year 2007 first amended certificate of estimated resources until May 14, 2007 due to the significantly late filing of the certificate of total sources available by the School District Treasurer; however, the board of education passed the annual appropriation measure on April 30, 2007, which would not have even been valid since there were no amended certificate of estimated resources issued.

For fiscal year 2008, the Auglaize County Budget Commission issued the first amended certificate of estimated resources on December 26, 2007; but the board of education failed to adopt an annual appropriation measure by fiscal year end. A fiscal year 2008 annual appropriation measure was filed with the Auglaize County Auditor on June 30, 2008; however, since the Board never adopted permanent appropriations, there were no allowable permanent appropriations for fiscal year 2008. An adjustment was made to the Budget vs. Actual Statements to remove the appropriations that were not approved by the Board, therefore only the prior year carry over appropriations were represented in the budget column on the Budget vs Actual Statements for the period ending June 30, 2008.

The failure of the Board to adopt annual appropriations in a timely manner did not provide the Board adequate control over district operations.

The Board of Education should adopt the annual appropriation measure directly after receiving the amended certificate of estimated resources from the county budget commission, in accordance with the requirements set out above.

Client Response:

The not filing of the annual appropriations was an oversight by the district treasurer. The treasurer will try to do a better job with this in the future. The treasurer has been overwhelmed in her position with the OSFC project and with some health issues.

FINDING NUMBER 2008-006

NONCOMPLIANCE CITATION – MATERIAL WEAKNESS

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following instances were noted where actual expenditures plus encumbrances exceeded appropriations at the legal level of control:

June 2007	
Fund	Excess
Public School Support (018)	\$ 2,708
Management Info Systems (432)	\$ 714
OSFC LFI Share – Building Fund (004)	\$ 59,197
Replacement Fund (005)	\$ 10,246
Bond Retirement Fund (002)	\$2,171,259
Food Service Fund (006)	\$ 9,487

**FINDING NUMBER 2008-006
 (Continued)**

June 2008

Fund	Excess
General Fund (001)	\$ 15,299
Public School Support (018)	\$ 21,789
Athletic & Yearbook (300)	\$ 122,158
Management Info Systems (432)	\$ 6,436
Ohio Schoolnet Prof Dev (452)	\$ 1,046
Title VI-B (516)	\$ 91,760
Title I (572)	\$ 16,887
Drug Free Schools (584)	\$ 800
REAP & Tech II-D	\$ 18,001
OSFC LFI Share – Building Fund (004)	\$ 744,745
Replacement Fund (005)	\$ 21,467
OSFC Construction Fund (010)	\$5,150,311
Bond Retirement Fund (002)	\$ 123,061
Food Service Fund (006)	\$ 867
Uniform School Supplies (009)	\$ 14,623

For fiscal year 2008, every fund had expenditures plus encumbrances exceeding appropriations because there was no evidence that the Board approved Permanent Appropriations during fiscal year 2008. The only Board-approved appropriation measure passed by a resolution of the board during fiscal year 2008 was for the Temporary Appropriations.

Budgetary information should be reviewed as frequently as necessary to help identify those instances when expenditures may exceed appropriations. Expenditures should be suspended at the legal level and/or modifications should be approved by the Board to help prevent noncompliance and possible deficit spending.

Client Response:

As district treasurer I truly believe that permanent appropriations were approved. If they were not it was an oversight on the treasurer's part due to the overwhelming job load due to the OSFC project, the treasurer's health and no help in the treasurer's office. This shouldn't be a problem in the future.

FINDING NUMBER 2008-007

NONCOMPLIANCE CITATION - MATERIAL WEAKNESS

Ohio Administrative Code Section 117-2-02 (A) states all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Administrative Code 117-2-02 (B), states the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

**FINDING NUMBER 2008-007
(Continued)**

- (1) Existence/occurrence;
- (2) Completeness: That all account balances and transactions that should be included in the financial records are included;
- (3) Rights and obligations;
- (4) Valuation/allocation, and;
- (5) Presentation and disclosure: that financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The Board of Education of the New Knoxville Local School District entered into a project agreement with the Ohio School Facilities Commission (OSFC) in June 2006 to renovate the K thru 12 facility. Per section VI (B) of the project agreement, all investment earnings of the Fund shall be credited to the Fund. The School District Board shall maintain a separate account of the investment earnings attributable to the respective contributions to the Fund by the School District Board and the Commission. The School District Board shall report accurate interest earnings to the Commission on a quarterly draw request. Auditor of State Bulletin 2001-007 further states that interest credited to the fund should be allocated by special cost center, splitting interest earned on the investment of local money from interest earned on the State's share.

The School District did not record the receipts and disbursements of the construction manager of \$239,054 and \$100,220 during fiscal years 2008 and 2007 respectively, that was paid directly to the contractor by the state. Also, the District did not budget those funds by obtaining estimated receipts and appropriations. The District also did not record interest earnings of \$143,966 for fiscal year 2008 and \$76,603 for fiscal year 2007.

The accompanying financial statements and District records have been corrected to include the above noted adjustments.

Auditor of State Bulletin #2000-008 requires that when the School District benefits from a loan or grant in which payments are made directly to the contractor by the loaner and grantor, the District should record the revenue and a corresponding expenditure in the appropriate fund at the time the payment is issued to the loaner or grantor. Applicable budgetary procedures such as estimated receipts and appropriations should also be followed for those revenues and expenditures. Also, all interest earnings should be posted to the books of the District monthly and then accurately reported on the quarterly draw requests to the OSFC.

Client Response:

The district treasurer did not receive proper training for the OSFC project from R.L. Bowen. This caused numerous things to not be posted or to be posted incorrectly. Adjustments have been made.

FINDING NUMBER 2008-008

NONCOMPLIANCE CITATION - MATERIAL WEAKNESS

The Ohio School Facilities Commission Classroom Facilities Assistance Program Project Agreement was entered into by and between the Ohio School Facilities Commission and the Board of Education of the New Knoxville Local School District, Auglaize County, pursuant to **Ohio Rev. Code Section 3318.08**, on July 12, 2006. Per review of the project agreement and related guidance from the Ohio Revised Code, Ohio Compliance Supplement, and Auditor of State Bulletin 2001-007, we noted the following issues:

FINDING NUMBER 2008-008
(Continued)

- The District did not establish the Locally Funded Initiative (LFI) portion in a separate fund (USAS fund 004) as required; instead it was included in the OSFC Project Construction Fund (USAS fund 010) within a special cost center. The correcting adjustments have been made to the financial statements by the compiler to properly present the activity for the LFI portion of the OSFC project.
- The District did not follow the project agreement in regards to depositing the amount of \$2,000,000 to the Project Construction Fund within 30 days of the sales of bonds or notes. The \$2,000,000 Bond Anticipation Notes issued in June 2006 were not posted to the Project Construction Fund until February 1, 2007, which was seven months after the initial receipt, not the 30 days agreed upon.
- The bond proceeds in the amount of \$2,000,000 was posted into the Ohio School Facilities Commission Fund (010), instead of the Bond Retirement Fund (002). The note payoff of \$2,000,000 along with associated interest of \$73,672 was incorrectly posted to the Ohio School Facilities Commission fund (010), instead of the Bond Retirement Fund (002), and the first interest payment on the 2007 OSFC Improvement Bonds in the amount of \$21,842 was incorrectly posted to the 010 fund instead of the 002 fund.
- The District did not follow the Project Agreement in regards to posting the amount of \$1,300,000 to the Project Construction Fund immediately upon execution of the project agreement. This amount still had not been posted to the Project Construction Fund as of June 30, 2008. This was corrected during the financial statement compilation.
- The Board approved an amendment to the original Project Agreement in February 2008, requiring another \$111,650 be deposited into the Local Share account. This amount was transferred on March 3, 2008 from the General Fund to the Locally Funded Initiative (LFI) special cost center within the Project Construction Fund (010) instead of the Local Share special cost center. The correcting adjustments have been made to the accompanying financial statements and records of the District.

The failure of the School District to properly follow the project agreement resulted in misstatements to the accounting records, and inaccurate reporting to the Ohio School Facilities Commission. The incorrect posting of the debt proceeds and payments could result in material misstatements to the financial statements, if not corrected by the financial statement compiler.

The Board of Education is responsible to provide a full accounting of the Project Construction Fund to the Ohio School Facilities Commission upon their request. The Board of Education and the Treasurer should examine the project agreement and related compliance requirements, and implement procedures to correct errors and seek guidance from the Commission in their continued accounting for the project. The Treasurer should consult the USAS manual for proper funds when posting debt transactions and obtain guidance as needed from outside sources throughout the school year instead of relying on Local Government Services to make the corrections after year end.

Client Response:

Again, the district treasurer did not receive proper training or guidance from R.L. Bowen for the OSFC project. This resulted in numerous incorrect postings, etc. Adjustments have been made.

FINDING NUMBER 2008-009

MATERIAL WEAKNESS

Posting of Income Tax Revenues

In fiscal year 2007, \$12,836 of income tax revenues were posted to the OSFC Fund, but should have been posted to the General Fund and then transferred to Fund 004. In fiscal year 2008, \$75,907 in income tax revenues were posted to the OSFC Fund, but should have been posted to the General Fund and then transferred to Fund 004.

The lack of posting the income tax revenues to the correct fund results in the voted levy not being used for the purpose of which it was passed for.

The accompanying financial statement and District records were corrected to reflect the adjustments as noted above. In the future, the income tax revenues should be posted to the General Fund as required with the applicable amounts being transferred to Fund 004 after the Board approves the transfer.

Client Response:

It was the treasurer's and board's understanding that the income tax was passed to finance the renovation project. We did not realize that the wording in the resolution stated that the revenue had to go to the general fund first. This has been corrected.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC 5705.41 (D) – Lack of prior certification of expenditures	No	Placed in the management letter
2006-002	Classroom Facilities Assistance Program Project Agreement Section III(1)(c) – Lack of posting note proceeds timely	No	See Finding 2008-008



Mary Taylor, CPA
Auditor of State

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 2, 2009