



Dave Yost • Auditor of State

**East Knox Local School District
Knox County, Ohio**

**Financial Forecast
For the Fiscal Year Ending June 30, 2016**

Local Government Services Section

East Knox Local School District
Knox County

Table of Contents

Title	Page
Table of Contents	1
Certification	3
Independent Accountant’s Report.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance For the Fiscal Years Ended June 30, 2013 through 2015, Actual; For the Fiscal Year Ending June 30, 2016, Forecasted – General Fund	7
Summary of Significant Forecast Assumptions and Accounting Policies	8

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Dave Yost • Auditor of State

Financial Planning and Supervision Commission
East Knox Local School District
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

and

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

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the East Knox Local School District, Knox County, Ohio, and issued a report dated February 16, 2016. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating surplus for the fiscal year ending June 30, 2016, of \$1,955,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2017 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2016.

DAVE YOST
Auditor of State

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Unice S. Smith
Chief of Local Government Services

April 21, 2016

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Dave Yost • Auditor of State

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the East Knox Local School District for the fiscal year ending June 30, 2016. The East Knox Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for management's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The statement of revenues, expenditures and changes in fund balance arising from cash transactions of the general fund for the fiscal years ended June 30, 2013, 2014, and 2015 were compiled by us and we have not audited or reviewed the accompanying financial statements, and, accordingly, we do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. Our responsibility is to conduct the compilation in accordance with Statements for Accounting and Review services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide assurance that no material modifications that should be made to the financial statements. Management has chosen to omit the disclosures associated with the cash basis of accounting.

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DAVE YOST
Auditor of State

February 16, 2016

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East Knox Local School District
Knox County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2013 Through 2015, Actual;
For the Fiscal Year Ending June 30, 2016, Forecasted
General Fund

	Fiscal Year 2013 Actual	Fiscal Year 2014 Actual	Fiscal Year 2015 Actual	Fiscal Year 2016 Forecasted
Revenues				
General Property Taxes	\$4,457,000	\$4,470,000	\$4,680,000	\$4,809,000
Unrestricted Grants-in-Aid	3,995,000	4,006,000	3,997,000	3,963,000
Restricted Grants-in-Aid	27,000	134,000	117,000	117,000
Property Tax Allocation	665,000	674,000	690,000	705,000
All Other Revenues	777,000	840,000	846,000	712,000
<i>Total Revenues</i>	<u>9,921,000</u>	<u>10,124,000</u>	<u>10,330,000</u>	<u>10,306,000</u>
Expenditures				
Personal Services	4,692,000	4,309,000	4,210,000	3,950,000
Employees' Retirement/Insurance Benefits	1,919,000	1,791,000	1,809,000	1,927,000
Purchased Services	2,942,000	3,051,000	3,377,000	3,527,000
Supplies and Materials	354,000	338,000	311,000	315,000
Other Objects	166,000	153,000	145,000	152,000
<i>Total Expenditures</i>	<u>10,073,000</u>	<u>9,642,000</u>	<u>9,852,000</u>	<u>9,871,000</u>
Other Financing Uses				
Transfers Out	0	0	49,000	0
<i>Total Expenditures and Other Financing Uses</i>	<u>10,073,000</u>	<u>9,642,000</u>	<u>9,901,000</u>	<u>9,871,000</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>				
	(152,000)	482,000	429,000	435,000
Cash Balance July 1	830,000	678,000	1,160,000	1,589,000
Cash Balance June 30	678,000	1,160,000	1,589,000	2,024,000
Encumbrances				
Actual/Estimated Encumbrances June 30	94,000	54,000	58,000	69,000
Unencumbered/Unreserved Fund Balance June 30	<u>\$584,000</u>	<u>\$1,106,000</u>	<u>\$1,531,000</u>	<u>\$1,955,000</u>

See accompanying summary of significant forecast assumptions and accounting policies
See independent accountant's report

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Note 1 – The School District

The East Knox Local School District (School District) is located in a number of townships within portions of Knox, Licking and Coshocton Counties and is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates two instructional buildings, a bus garage and an administrative building. The School District employs 68 certified employees and 44 classified employees who provide services to 1,279 students and other community members.

Note 2 – Nature of the Forecast

This financial forecast presents, to the best of the East Knox Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 16, 2016, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecast and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 – Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the general fund supported debt is included in the general fund.

Note 4 – Summary of Significant Accounting Policies

Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Fund Accounting

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

Governmental Funds

General Fund – The general fund is the operating fund of the School District and is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specified restricted or committed revenues should be the foundation for a special revenue fund.

Debt Service Fund – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in the debt service funds.

Capital Projects Funds – Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent Funds – Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other organizations.

Proprietary Funds

Enterprise Funds – Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds – Internal service funds are used to account and report for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

Budgetary Process

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

Budget – A budget of estimated cash receipts and disbursements is submitted to the Knox County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources – The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations – A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire fiscal year. The appropriation measure may be amended or supplemented during the fiscal year as new information becomes available.

Encumbrances – The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 – General Operating Assumptions

The East Knox Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

East Knox Local School District
 Knox County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2016

Note 6 – Significant Assumptions for Revenues and Other Financing Sources

General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property, and manufactured homes which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Knox County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District’s fiscal year runs from July through June. Property tax revenue received during calendar year 2016 (the collection year) for real and public utility property taxes represents collections of 2015 taxes (the tax year). First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “Property Tax Allocation”.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2017 scheduled property tax settlements. The potential advances have been excluded due to the School District’s inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2016.

The property tax revenues for the general fund are generated from several levies. The current levies being collected for the general fund, the year approved, first and last year of collection, and the full tax rate are as follows:

<u>Tax Levies</u>	<u>Year Approved</u>	<u>First Calendar Year of Collection</u>	<u>Last Calendar Year of Collection</u>	<u>Full Tax Rate (Per \$1,000 of Assessed Valuation)</u>
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	n/a	\$4.50
Continuing Operating	1976	1977	n/a	17.20
Continuing Operating	1978	1979	n/a	4.60
Continuing Operating	1984	1985	n/a	8.90
Total Tax Rate				<u>\$35.20</u>

The School District also has levies for bonded debt and permanent improvements totaling \$6.75 per \$1,000 of assessed valuation. The School District’s total tax rate is \$41.95 per \$1,000 of assessed valuation.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy). State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate was at \$20.00 per \$1,000 of assessed valuation for collection year 2016, and the effective commercial and industrial real property tax rate was \$20.00 per \$1,000 of assessed valuation for collection year 2016.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes.

General Property Tax – General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast represent gross property tax revenue and are based upon information provided by the Knox County Auditor. The School District anticipates an increase of \$129,000 in fiscal year 2016 from the prior fiscal year. This increase is due to an increase in assessed values of taxable property from tax year 2013 to tax year 2014, with tax year 2015 assessed values remaining comparable to tax year 2014. In fiscal year 2015, only the spring settlement reflected this increase, while in fiscal year 2016, both settlements will reflect the increase.

Unrestricted Grants-in-Aid

In fiscal year 2011, Ohio school districts received their funding under the Ohio Evidence-Based Model (OEBM) that was established in Chapter 3306 of the Ohio Revised Code and linked educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporated real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount was the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors were multiplied against the Ohio education challenge factor (a district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation were student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 22 mills for fiscal year 2011, 21 mills for 2012 and 2013, and 20 mills for 2014 and thereafter.

Beginning in fiscal year 2012, the administration of Governor John Kasich proposed to move away from the Ohio Evidence Based Model (OEBM) to a new funding method. However, since a new funding mechanism was not formulated as of yet, the administration decided to fund school districts in fiscal years 2012 and 2013 based on a transitional approach until a new formula was devised. This transitional approach was referred to as the Bridge formula. The Bridge formula divided the fiscal year 2011 OEBM

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

funding by a calculated ADM to determine the per pupil funding. The per pupil funding was then multiplied by the fiscal year 2012 and 2013 ADM. The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 21 mills of property taxes for fiscal years 2012 and 2013. In addition to this adjustment, each school district's fiscal year 2012 and 2013 funding was further adjusted so that the district received at least the total funding it received in fiscal year 2011, after subtracting the state fiscal stabilization funds from total funding, as well as to provide financial incentives for high performing districts.

In fiscal year 2014, the State General Assembly adopted a new funding method to replace the Bridge Formula. The new foundation formula includes a base amount of funding per pupil, known as the Opportunity Grant, and also provides additional funding for a number of different services designed to serve the needs of various populations of students. The Opportunity Grant is calculated using a per pupil amount times the Average Daily Membership (ADM). For fiscal year 2014, the ADM count continued to use the current fiscal year count taken during the first full week of October. This amount was then multiplied by the State Share Index, which factors in the property wealth and the income of residents of the school district. These calculations are a multi-step process and are reflected on the School Finance Payment Report (SFPR). School districts were guaranteed the amount received for fiscal year 2013 (including transportation aid and funding for career technical education) and no school district received an increase greater than 6.25 percent for fiscal year 2014. These calculations did not change in fiscal year 2015. In fiscal year 2016, the SFPR continues to be used and the calculation of foundation funding is similar to the prior fiscal year. Based on the most current foundation settlement, the School District estimates \$3,912,000 in foundation funding for fiscal year 2016.

Beginning in fiscal year 2013, the School District started receiving additional unrestricted grants-in-aid revenue due to casino revenue. Of the casino revenue collected by the State, thirty-four percent is distributed to school districts, based on student population. For fiscal year 2016, the School District anticipates casino revenue of \$51,000, for a total unrestricted grants-in-aid amount of \$3,963,000.

Restricted Grants-in-Aid

Restricted grants-in-aid consists of revenue to aid career technologies programs and economically disadvantaged funding. For fiscal year 2016, the School District expects to receive \$24,000 in career technologies monies and \$93,000 in economically disadvantaged funding for a total restricted grants-in-aid amount of \$117,000.

Property Tax Allocation

Since 1971, the State has reimbursed local governments for lost tax revenue related to State mandated rollback and homestead exemptions. House Bill 59 signed in 2013 effected these reductions. The new law indicates that the ten percent and the two and one-half percent rollbacks will no longer apply to new levies that are enacted after August 31, 2013. In addition, House Bill 59 has adjusted the Homestead Exemption and it will now be a means tested provision only available to those otherwise eligible taxpayers with household incomes that do not exceed \$30,000. These changes reduce reimbursements from the State and increase real property tax revenue. The School District is anticipating an increase in property tax allocation in fiscal year 2016 due to an increase in assessed values of taxable property. Assessed values of taxable property increased from tax year 2013 to tax year 2014, with tax year 2015 assessed values remaining comparable to tax year 2014. In fiscal year 2015, only the spring settlement reflected the increase, while in fiscal year 2016, both settlements will reflect the increase.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Property tax allocation revenues consist of the following:

Revenue Source	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecasted Fiscal Year 2016	Variance
Homestead and Rollback	\$665,000	\$674,000	\$690,000	\$705,000	\$15,000

All Other Revenues

All other revenues include tuition, transportation, interest, rentals, fees, donations, reimbursements, services provided to other school districts, and other revenue.

Open enrollment tuition revenue is expected to decrease in fiscal year 2016 due to fewer students open enrolling in the School District. Other tuition primarily includes special education students and is expected to decrease from fiscal year 2015.

Interest is based on historical investment practices and anticipated rates and cash balances during the forecast period. The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. Interest revenue is expected to remain consistent with the prior fiscal year.

Fees include participation fees for extra-curricular music and athletic programs. In prior fiscal years, fees also included an iPad fee for students who chose to take home their devices. In fiscal year 2016, the iPad fees are accounted for in a separate fund, thus lowering fees revenue for the general fund.

Revenue from the sale of School District assets varies each year and is based upon how many assets the School District is disposing of in a given year. In prior fiscal years, the School District sold a bus and auctioned off items from a closed building, but this revenue is expected to be minimal this fiscal year.

Medicaid reimbursements are expected to be higher than the prior fiscal year due to a “true up” for prior years being received in fiscal year 2016.

E-rate revenue is expected to be lower than in fiscal year 2015 based on the method of reimbursement used in fiscal year 2015. In fiscal year 2015, the School District directly received reimbursements on qualified purchases. For fiscal year 2016, the School District is primarily using a reduced billing method; this means that the School District can purchase technology items for a lower price and the company selling the item seeks reimbursement from the E-rate program.

Adjustments and refunds of prior year expenditures (RPYE) revenue includes reimbursements from the School Employees Retirement System in fiscal year 2014 due to overpayments of pension in a prior fiscal year and Bureau of Workers’ Compensation refunds in fiscal years 2014 and 2015. Based on fiscal year to date information, adjustments and RPYE revenue is expected to be lower in fiscal year 2016.

Services provided to other school districts is related to an agreement the School District has with the Knox County Career Center. The School District houses one career-technical teacher and pays that employee’s salary and benefits. The students are reported as half in the School District and half at the Career Center. Then the Career Center reimburses the School District for half of the costs of this program

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

on a quarterly basis. This is forecast to decrease in fiscal year 2016 due to the final quarterly payment for fiscal year 2014 being received in fiscal year 2015. Therefore, the fiscal year 2015 amount includes five quarterly payments, while fiscal year 2016 includes only four quarterly payments.

Other revenue includes a variety of miscellaneous items, as well as a utility reimbursement from the food service fund. At the end of each fiscal year the School District calculates what portion of utilities was used by the lunchrooms. This amount is then reimbursed to the general fund from the food service fund so that the food service fund reflects the true cost of providing lunch to students. This is recorded as other revenue in the general fund.

All other revenues consist of the following:

	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecasted Fiscal Year 2016	Variance Increase (Decrease)
Open Enrollment Tuition	\$474,000	\$435,000	\$418,000	\$393,000	(\$25,000)
Other Tuition	110,000	129,000	142,000	114,000	(28,000)
Transportation	3,000	4,000	5,000	4,000	(1,000)
Interest	6,000	5,000	7,000	7,000	0
Rentals	1,000	0	0	0	0
Fees	56,000	84,000	79,000	55,000	(24,000)
Donations	4,000	1,000	0	1,000	1,000
Sale of Asset	22,000	33,000	2,000	1,000	(1,000)
Medicaid Reimbursements	15,000	47,000	51,000	62,000	11,000
E-Rate	8,000	9,000	38,000	8,000	(30,000)
Adjustments and RPYE	0	34,000	23,000	6,000	(17,000)
Services Provided to Other Schools	36,000	22,000	54,000	38,000	(16,000)
Other	42,000	37,000	27,000	23,000	(4,000)
Totals	<u>\$777,000</u>	<u>\$840,000</u>	<u>\$846,000</u>	<u>\$712,000</u>	<u>(\$134,000)</u>

Note 7 – Significant Assumptions for Expenditures and Other Financing Uses

Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. Most employees receive their compensation on a bi-weekly basis. Administrative salaries are set by an administrative agreement.

East Knox Local School District
 Knox County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2016

Staffing levels for the past three fiscal years and the current fiscal year are displayed in the chart below. Staffing levels for fiscal year 2016 decreased from the prior fiscal year.

	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
General Fund:				
Certified	67	64	63	61
Classified	40	37	37	36
Total General Fund	<u>107</u>	<u>101</u>	<u>100</u>	<u>97</u>
Other Funds:				
Certified	6	5	7	7
Classified	18	16	12	8
Total Other Funds	<u>24</u>	<u>21</u>	<u>19</u>	<u>15</u>
Totals	<u><u>131</u></u>	<u><u>122</u></u>	<u><u>119</u></u>	<u><u>112</u></u>

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives for existing staff. The contract for certified employees currently being followed covers the period from July 1, 2013, through June 30, 2016, and allows for no increase in base salaries or step increases. Certified salaries are forecast to decrease in fiscal year 2016 due to a reduction of two employees being paid out of the general fund and due to replacing teachers who have left the School District with staff at the lower end of the wage scale.

Classified salaries are determined by the Board of Education. There were no increases in base salary or step increases during the current fiscal year. Classified salaries are expected to decrease in fiscal year 2016 due to the reduction of one employee as well as not filling another classified position for the first half of the fiscal year.

In fiscal year 2016, substitute salaries are expected to decrease based on the anticipation of fewer absences requiring a substitute than in the prior fiscal year.

Supplemental salaries are anticipated to remain fairly consistent with the prior fiscal year.

The School District offers severance pay upon retirement to its certified and classified employees who are eligible to retire under the provisions set by STRS or SERS. Teachers and classified staff earn sick leave at the rate of one and one-fourth days per month. Upon retirement, qualified employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 52.5 days at their per diem rate. Qualifying teachers shall be credited an additional .25 days at their per diem rate for each year of service in the East Knox Local School District, to a maximum of thirty-five years of service or 8.75 additional days of severance. Severance is expected to decrease due to fewer employees retiring than in the prior fiscal year.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

The following table is a comparison of salaries and wages for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecast Fiscal Year 2016	Variance Increase (Decrease)
Certified Salaries	\$3,391,000	\$3,096,000	\$2,912,000	\$2,763,000	(\$149,000)
Classified Salaries	1,008,000	927,000	996,000	951,000	(45,000)
Substitute Salaries	68,000	66,000	64,000	54,000	(10,000)
Supplemental Salaries	137,000	155,000	139,000	143,000	4,000
Severance Pay	73,000	45,000	78,000	13,000	(65,000)
Other Salaries and Wages	15,000	20,000	21,000	26,000	5,000
Totals	\$4,692,000	\$4,309,000	\$4,210,000	\$3,950,000	(\$260,000)

Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, workers' compensation, Medicare, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund healthcare benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year. Retirement costs are forecast to remain fairly consistent with the prior fiscal year.

In years past, SERS has been paid six months in arrears by Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one was for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two was for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. The School District decided to spread the six month SERS arrearage amount over the next six fiscal years adding this to the current payment. The School District had a total arrearage liability of \$113,832, with annual payments of \$18,972.

Health care and dental insurance rates are fixed by the Board of Education on a yearly basis, from July to June. The current health care rates are as follows:

	<u>Medical</u>	<u>Dental</u>	<u>Vision</u>	<u>Total</u>
Single Rates:				
July 1, 2012 to June 30, 2013	\$565.92	\$30.14	\$8.59	\$604.65
July 1, 2013 to June 30, 2014	585.97	32.25	8.59	626.81
July 1, 2014 to June 30, 2015	598.25	37.09	9.62	644.96
July 1, 2015 to June 30, 2016	663.15	37.09	9.62	709.86
Family Rates:				
July 1, 2012 to June 30, 2013	\$1,459.60	\$77.69	\$19.44	\$1,556.73
July 1, 2013 to June 30, 2014	1,654.73	83.13	19.44	1,757.30
July 1, 2014 to June 30, 2015	1,689.43	95.60	21.77	1,806.80
July 1, 2015 to June 30, 2016	1,872.71	95.60	21.77	1,990.08

East Knox Local School District
 Knox County
 Summary of Significant Assumptions and Accounting Policies
 For the Fiscal Year Ending June 30, 2016

Full time employees of the School District contribute 15 percent of the premium for health insurance. There was a 10.1 percent premium increase for health insurance between fiscal years 2015 and 2016. Because of the increase in premium, an increase in the number of employees enrolled in the health insurance coverage, and a few employees switching from single to family healthcare coverage, the School District is forecasting an increase in healthcare costs during the current fiscal year.

Worker's Compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. In previous years, premiums were paid in the following calendar year. Beginning in calendar year 2016, the Bureau of Worker's Compensation (BWC) is transitioning to prospective billing. The policy year 2016 bill will include payment on calendar year 2015 wages and on calendar year 2016 estimated wages. For this transition policy year, the BWC is giving a 50 percent credit on the retrospective bill on 2015 wages and a 50 percent credit on the prospective bill on 2016 wages. The School District paid the entire premium for calendar year 2015 in January of 2016. The School District intends to pay the entire premium for calendar year 2016 in May of 2016. The workers' compensation amount for fiscal year 2016 is forecast to remain comparable to the prior fiscal year due to the above mentioned credits.

Medicare is based on a percentage of wages and is estimated to decrease slightly in fiscal year 2016 due to the decrease in wages. Unemployment is forecast to decrease due to fewer employees leaving the School District and applying for unemployment benefits in fiscal year 2016 compared to fiscal year 2015. Tuition reimbursement is forecast to decrease due to fewer employees taking advantage of this benefit.

Presented below is a comparison of benefits for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecast Fiscal Year 2016	Variance Increase (Decrease)
Employer's Retirement	\$714,000	\$658,000	\$620,000	\$625,000	\$5,000
Health Care/Life Insurance	1,114,000	1,051,000	1,099,000	1,230,000	131,000
Workers' Compensation	28,000	17,000	16,000	16,000	0
Medicare	61,000	57,000	57,000	56,000	(1,000)
Unemployment	1,000	0	13,000	0	(13,000)
Tuition Reimbursement	1,000	8,000	4,000	0	(4,000)
Totals	<u>\$1,919,000</u>	<u>\$1,791,000</u>	<u>\$1,809,000</u>	<u>\$1,927,000</u>	<u>\$118,000</u>

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Purchased Services

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecast Fiscal Year 2016	Variance Increase (Decrease)
Professional and Technical Services	\$603,000	\$718,000	\$842,000	\$944,000	\$102,000
Property Services	51,000	94,000	53,000	52,000	(1,000)
Travel and Meeting Expenses	22,000	16,000	17,000	18,000	1,000
Communication Costs	23,000	22,000	22,000	22,000	0
Utility Services	310,000	256,000	302,000	294,000	(8,000)
Tuition Payments	5,000	14,000	11,000	13,000	2,000
Excess Costs	27,000	42,000	71,000	70,000	(1,000)
Special Education	34,000	14,000	36,000	32,000	(4,000)
Open Enrollment	1,446,000	1,481,000	1,653,000	1,680,000	27,000
Community School	402,000	378,000	361,000	360,000	(1,000)
Post Secondary	16,000	14,000	7,000	16,000	9,000
Other Purchased Services	3,000	2,000	2,000	26,000	24,000
Totals	<u>\$2,942,000</u>	<u>\$3,051,000</u>	<u>\$3,377,000</u>	<u>\$3,527,000</u>	<u>\$150,000</u>

Professional and technical services are expected to increase in fiscal year 2016 from fiscal year 2015 mainly due to increases in Educational Service Center (ESC) costs, contracted psychologist costs, and legal costs. In fiscal year 2015, the School District had a psychologist being paid from salaries, but for fiscal year 2016, the School District is contracting with a psychologist through the ESC, increasing purchased services. Utility services are expected to decrease from fiscal year 2015 due to a change in the billing method for gas for the high school. In fiscal year 2015, the School District paid budget bills for gas for the high school; at the end of the period, the School District received a credit for the amount over paid. In fiscal year 2016, the School District is paying based on actual usage.

The School District is anticipating an increase in open enrollment costs and in post secondary costs based upon the latest information from the Ohio Department of Education. Other purchased services are expected to increase from fiscal year 2015, due to the cost of paying another school district to transport a student from the School District during fiscal year 2016.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2013	Actual Fiscal Year 2014	Actual Fiscal Year 2015	Forecast Fiscal Year 2016	Variance Increase (Decrease)
General Supplies, Library Books and Periodicals	\$133,000	\$144,000	\$157,000	\$163,000	\$6,000
Textbooks	10,000	2,000	0	5,000	5,000
Operations, Maintenance and Repair	211,000	192,000	154,000	147,000	(7,000)
Totals	<u>\$354,000</u>	<u>\$338,000</u>	<u>\$311,000</u>	<u>\$315,000</u>	<u>\$4,000</u>

General supplies, library books, and periodicals are expected to continue to increase slightly in fiscal year 2016. Textbook purchases are expected to increase due to the replenishment of textbooks, because in fiscal year 2015, no textbooks were purchased from the general fund. Operations, maintenance and repair expenditures are expected to decrease slightly in fiscal year 2016 due to lower fuel prices for the School District's buses.

Other Objects

Other object expenditures consist of dues, fees, and liability insurance. Other object expenditures are forecast in the amount of \$152,000 for fiscal year 2016, which is slightly higher than the prior fiscal year. The primary reason for this increase is higher county auditor and treasurer fees related to increased property tax collections.

Note 8 – Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of expenditures at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance. Encumbrances for purchased services, supplies and materials, and other objects for the fiscal year ended June 30, 2016, are expected to be \$69,000.

Note 9 – Capital Acquisition and Improvements Set-Aside

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The set-aside amount is approximately \$176,000 for fiscal year 2016. An annual offset is anticipated from the permanent improvement levy. This offset exceeds the required set-aside amount in fiscal year 2016; therefore, no reserve amount is anticipated for the forecast period.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Note 10 – Pending Litigation

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

Note 11 – Levies

Since 2006, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

Date	Type	Amount	Term	Election Results
November 7, 2006	Bond Issue	\$13,000,000	28 Years	Passed
March 4, 2008	Permanent Improvement	3.0 mill	Continuing	Passed
May 4, 2010	Income Tax	1 Percent	5 Years	Failed
August 3, 2010	Emergency	4.97 mill	5 Years	Failed
November 2, 2010	Emergency	4.97 mill	5 Years	Failed
May 3, 2011	Emergency	5.0 mill	5 Years	Failed
November 8, 2011	Emergency	5.0 mill	5 Years	Failed
November 6, 2012	Emergency and Income Tax	2.97 mill/.75 percent	5 Years	Failed
May 7, 2013	Emergency and Income Tax	2.9 mill/1 percent	5 Years	Failed
November 5, 2013	Emergency and Income Tax	2.9 mill/1 percent	5 Years	Failed
November 4, 2014	Emergency and Income Tax	3.9 mill/.5 percent	5 Years	Failed

Note 12 – Employee Benefits Self-Insurance Fund

The School District provides hospital/medical benefits through a self-insurance program with an insurance pool, The Jefferson Health Plan. The School District maintains an internal service fund to account for and finance its uninsured risks of loss in this program. The Jefferson Health Plan reviews and pays all claims on the School District's behalf. The School District pays a monthly premium for each employee into the internal service fund. The premium is paid by the fund that pays the salary for the employee and differs for single and family benefits. Monthly premiums are set by The Jefferson Health Plan. The School District anticipates the costs of claims will decrease in fiscal year 2016, since the School District had unusually high claims in fiscal year 2015. The School District increased the premiums in fiscal year 2016 and it is anticipated these premiums will be more than sufficient to cover the claims and administrative costs. The School District anticipates a reserve in the fund of \$422,000 at the end of fiscal year 2016.

Note 13 – Other Funds

The School District has numerous other funds that account for resources that are restricted for specific purposes. All other funds of the School District are anticipated to have sufficient resources to meet their obligations during the forecast period.

East Knox Local School District
Knox County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2016

Note 14 – Financial Planning and Supervision Commission

On February 5, 2015, the School District was declared to be in a state of “Fiscal Emergency” by the Auditor of State. Legislation effective September 1996 permitted this declaration due to the School District’s declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is composed of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Knox County Auditor. The Commission’s primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education’s discretion is limited in that all financial activity of the School District must be in accordance with the plan.

The initial financial recovery plan was adopted June 29, 2015, and under State law is to be updated annually. This plan includes items that were already completed, such as reducing staff and closing the Bladensburg Elementary building. Also, the Commission is directing the School District to find additional savings or expenditure reductions to cover the structural deficit first projected to occur in fiscal year 2017.

Note 15 – Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The forecast filed with the Ohio Department of Education in October 2015 covered fiscal years 2016 through 2020 and assumes the continued operation of the School District with no significant changes in revenue and annual increases in expenditures. At that time, the School District anticipated a surplus of \$1,718,000 for fiscal year 2016 and an accumulated deficit of \$2,376,000 by the end of fiscal year 2020. An updated five-year financial forecast is required to be filed with the Ohio Department of Education by the end of May 2016 and will cover fiscal years 2016 through 2020, reflecting any changes in assumptions.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.



Dave Yost • Auditor of State

EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 21, 2016**