Dave Yost • Auditor of State

East Knox Local School District
Knox County, Ohio

Fiscal Emergency Termination

Local Government Services Section

East Knox Local School District
Knox County

Fiscal Emergency Termination

Table of Contents

(This Page Intentionally Left Blank)

CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the East Knox Local School District Financial Planning and Supervision Commission, the Auditor of State performed an analysis of the East Knox Local School District to determine whether the Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated. Based on our analysis, the Auditor of State certifies that the East Knox Local School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code has been implemented, that the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be non-adverse. Therefore, the existence of the East Knox Local School District Financial Planning and Supervision Commission and its role in the operation of the East Knox Local School District is terminated as of March 7, 2017.

Accordingly, this report is hereby submitted to the East Knox Local School District Board of Education, the Financial Planning and Supervision Commission, John Kasich, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Jonette Curry, Knox County Auditor, and Paolo DeMaria, State Superintendent of Public Instruction.

Dave Yost

DAVE YOST
Auditor of State

March 7, 2017

(This Page Intentionally Left Blank)

Report on Termination of the East Knox Local School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission of the East Knox Local School District (the Commission), Knox County, Ohio, as provided by Section 3316.16(B) of the Ohio Revised Code, the Auditor of State has performed an analysis to determine whether this Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated.

The Declaration of Fiscal Emergency

Effective September 4, 2012, the Department of Education declared the East Knox Local School District, Knox County, to be in a state of fiscal caution in accordance with Section 3316.031 of the Ohio Revised Code. The declaration was based on an anticipated deficit for the fiscal year ending June 30, 2012, as well as the potential for deficits in future years.

The Auditor of State declared the East Knox Local School District (School District) in fiscal watch on September 30, 2014. This declaration was based upon the School District's failure to submit a written proposal for eliminating the anticipated deficits that prompted the declaration of fiscal caution. Upon reviewing the School District's five-year forecast filed with the Department of Education on April 14, 2014, which included forecasted deficits of $172,000, $1,467,000 and $3,316,000 for the fiscal years ending June 30, 2015, 2016, and 2017, the Auditor of State found the Department of Education's request that the School District be placed in fiscal watch to be reasonable.

Section 3316.04, Revised Code, requires that the board of education of a district declared to be in fiscal watch prepare and submit a financial plan to the State Superintendent of Public Instruction that demonstrates the actions the board will take to eliminate the district's current operating deficit and avoid incurring future operating deficits. A school district that fails to submit an acceptable plan within 120 days of the Auditor of State's declaration of fiscal watch is required to be declared in a state of fiscal emergency in accordance with Section 3316.03(B), Revised Code. The East Knox Local School District Board of Education passed a resolution on November 10, 2014, stating their inability to develop a fiscal watch recovery plan acceptable to the Superintendent of Public Instruction. Accordingly, the Auditor of State declared the School District to be in a state of Fiscal Emergency under Section 3316.03(B)(2) of the Ohio Revised Code on February 5, 2015. A Financial Planning and Supervision Commission was created whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;

2. All of the fiscal emergency conditions have been corrected or eliminated, and no new emergency conditions have occurred;

3. The objectives of the financial recovery plan are being met; and,

4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follow.

Section 1 – Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the East Knox Local School District and issued a Report on Accounting Methods, dated August 2, 2016. The report identified areas where the School District's financial accounting and reporting system was not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct those issues identified in the Report on Accounting Methods. A summary of each area of noncompliance identified in the Report on Accounting Methods and the status of each corrective action is presented below:

Budgetary Process

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer compares appropriations to estimated resources; however, this comparison is not documented or presented to the Board. The Treasurer should document the comparison of appropriations to estimated resources and present the comparison to the Board upon request for supplemental appropriations demonstrating the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.

Implemented:

The Treasurer has implemented a spreadsheet that has columns for beginning unencumbered balances, the original certificate of estimated resources amounts and amendments to the certificate of estimated resources, adding them together in a column showing the total amount available to appropriate. Next to this column are two more columns, one showing the permanent appropriations and another showing the total permanent appropriations plus amendments passed by the Board. This spreadsheet is given to the Board.

Auditor of State Comment from Report on Accounting Methods:

- The Board adopts appropriations and at the same time the Treasurer amends the certificate to support appropriations. Appropriations should be limited to the estimated resources reflected on the amended certificate at the time of adoption. Prior to appropriating the additional or new resources, the Treasurer should request an amended certificate based on reasonable estimates and/or actual receipts.

Implemented:

The Treasurer submits a request for an amended certificate prior to appropriating the additional or new resources.

Auditor of State Comment from Report on Accounting Methods:

- Throughout the year, additional appropriations are entered into the system before approval by the Board. The Treasurer should enter appropriations into the system only after the appropriations are approved by the Board.

Implemented:

The Treasurer enters appropriations into the system only after the appropriations are approved by the Board.

Capital Assets and Supplies Inventory

Auditor of State Comment from Report on Accounting Methods:

- The School District does not assign salvage values as assets are acquired. The School District should assign salvage values, per Board policy, and have these values included in the inventory listing spreadsheet.

Implemented:

The School District assigns salvage values, which are included in the inventory listing spreadsheet.

Financial Reporting

Auditor of State Comment from Report on Accounting Methods:

- The School District does not prepare its annual financial report in accordance with GAAP. Financial statements prepared in accordance with GAAP should be filed with the Auditor of State within 150 days of the fiscal year end.

Implemented:

The School District's annual financial statements for the fiscal year ended June 30, 2016, were prepared in accordance with GAAP and filed with the Auditor of State on October 18, 2016. A notice of availability was published in a local newspaper.

Recent Audit Report and Compliance and Management Letters

In addition to reviewing the actions taken to address the issues identified in the Report on Accounting Methods and before releasing a school district from fiscal emergency, the Auditor of State reviews the current audit report to determine if there are deficiencies in the school district's financial reporting or any significant failures to comply with the requirements of the Ohio Revised Code.

The Auditor of State released an audit report on the School District's financial statements as of and for the fiscal year ended June 30, 2016, on January 10, 2017. The report expressed an unmodified opinion of the financial statements.

As part of the audit report, the School District receives letters on legal compliance and related internal controls and a management letter. The School District did not receive a management letter for the fiscal year 2016 audit period.

Section 2 – Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a school district to be in a state of fiscal emergency if the Auditor of State determines that a school district meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.

2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.

3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.

4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,

5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the school district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

The results of our analysis of the fiscal emergency conditions are as follows:

1. The School District no longer has an operating deficit in the general fund.

2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.

3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.

4. The examination of the School District's five-year forecast includes a non-adverse opinion rendered by the Auditor of State.

Section 3 – Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District (dated April 25, 2016). The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan, which were confirmed by us. The key provisions of the financial plan are as follows:

1. The School District will continue to develop and maintain a five-year financial forecast that establishes the parameters of expenditures versus revenues for the School District. The forecast will be updated as required to reflect the changes in assumptions and the most likely course of the School District.

2. The School District will contain expenditures within the five-year financial forecast and the Financial Recovery Plan.

3. The School District will evaluate its needs and identify where costs can be cut and ways to offset expenditures that are necessary.

4. The School District will consider alternatives in order to increase revenues.

Actions taken to achieve the provisions of the plan include the following:

1. The School District prepared monthly reports of receipts, expenditures, and encumbrances, which were monitored by staff from the Fiscal Assistance Section of the Ohio Department of Education.

2. The School District monitored personnel levels, from which the School District cut 12 classified and 15 certified positions, totaling 27 positions. This saved the School District approximately $1.5 million.

3. The School District closed Bladensburg Elementary, which was estimated to save the School District approximately $144,000 annually.

4. The School District started charging utilities used for lunchroom food preparation to the food service fund instead of general fund, which saved the School District's general fund approximately $19,000 in fiscal year 2016.

5. The School District implemented a "pay to participate" fee for athletics, which generates about $50,000 per fiscal year.

6. The School District passed a 4.4 mill 10 year emergency levy in November 2016 that will generate $1.2 million in additional funds annually.

Section 4 – Five-Year Forecast

The Auditor of State examined the School District's financial forecast for the fiscal years ending June 30, 2017 through 2021, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District's five-year forecast (see Appendix A) presents a positive unencumbered and unreserved general fund balance for the five-year period ending June 30, 2021. The Auditor of State, in a report dated March 7, 2017, rendered a "non-adverse" opinion on the financial forecast.

Section 5 – Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented an effective accounting and reporting system;
2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period;
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is "nonadverse".

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the East Knox Local School District and its functions may be terminated.

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

APPENDIX A

East Knox Local School District

Knox County, Ohio

Financial Forecast

For the Fiscal Years Ending June 30, 2017 through June 30, 2021

(This Page Intentionally Left Blank)

East Knox Local School District – Knox County

Fiscal Emergency Termination

Table of Contents

(This Page Intentionally Left Blank)

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 years ending June 30, 2017 through 2021. 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 the Board'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, 2014, 2015, 2016 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 on Standards 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 any 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.

Dave Yost

DAVE YOST
Auditor of State

January 10, 2017

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 866-882-0004
www.ohioauditor.gov

East Knox Local School District
Knox County
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2014 Through 2016 Actual;
For the Fiscal Years Ending June 30, 2017 Through 2021 Forecasted
General Fund

	Fiscal Year 2014 Actual	Fiscal Year 2015 Actual	Fiscal Year 2016 Actual
Revenues			
General Property Taxes	$4,470,000	$4,680,000	$4,873,000
Unrestricted Grants-in-Aid	4,006,000	3,997,000	4,011,000
Restricted Grants-in-Aid	134,000	117,000	65,000
Property Tax Allocation	674,000	690,000	705,000
All Other Revenues	840,000	846,000	800,000
Total Revenues	10,124,000	10,330,000	10,454,000
Expenditures			
Personal Services	4,309,000	4,210,000	3,905,000
Employees' Retirement/Insurance Benefits	1,791,000	1,809,000	1,884,000
Purchased Services	3,051,000	3,377,000	3,377,000
Supplies and Materials	338,000	311,000	274,000
Other Objects	153,000	145,000	144,000
Total Expenditures	9,642,000	9,852,000	9,584,000
Other Financing Uses			
Transfers Out	0	49,000	0
Total Expenditures and Other Financing Uses	9,642,000	9,901,000	9,584,000
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	482,000	429,000	870,000
Cash Balance July 1	678,000	1,160,000	1,589,000
Cash Balance June 30	1,160,000	1,589,000	2,459,000
Encumbrances			
Actual/Estimated Encumbrances June 30	54,000	58,000	71,000
Unencumbered/Unreserved Fund Balance June 30	$1,106,000	$1,531,000	$2,388,000

See accompanying summary of significant forecast assumptions and accounting policies
See Independent Accountant's Report

Fiscal Year 2017 Forecasted	Fiscal Year 2018 Forecasted	Fiscal Year 2019 Forecasted	Fiscal Year 2020 Forecasted	Fiscal Year 2021 Forecasted
$5,595,000	$6,121,000	$6,127,000	$6,133,000	$6,139,000
3,930,000	3,956,000	3,956,000	3,956,000	3,956,000
99,000	99,000	99,000	99,000	99,000
723,000	741,000	741,000	741,000	741,000
728,000	681,000	687,000	691,000	692,000
11,075,000	11,598,000	11,610,000	11,620,000	11,627,000
4,007,000	4,193,000	4,293,000	4,383,000	4,477,000
1,814,000	2,014,000	2,121,000	2,241,000	2,426,000
3,732,000	3,856,000	3,990,000	4,085,000	4,187,000
369,000	374,000	375,000	380,000	384,000
170,000	181,000	180,000	181,000	181,000
10,092,000	10,618,000	10,959,000	11,270,000	11,655,000
0	0	0	0	0
10,092,000	10,618,000	10,959,000	11,270,000	11,655,000
983,000	980,000	651,000	350,000	(28,000)
2,459,000	3,442,000	4,422,000	5,073,000	5,423,000
3,442,000	4,422,000	5,073,000	5,423,000	5,395,000
61,000	61,000	61,000	61,000	61,000
$3,381,000	$4,361,000	$5,012,000	$5,362,000	$5,334,000

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 41 classified employees who provide services to 1,233 students and other community members.

On February 5, 2015, the School District was declared to be in a state of "Fiscal Emergency" under Section 3316.03(B)(2) by the Auditor of State. The declaration was 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 comprised 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.

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 January 10, 2017, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted 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 an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

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 expenditure 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 governments.

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 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.

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 fiscal 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 and anticipated school calendars 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.

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 2017 (the collection year) for real and public utility property taxes represents collections of 2016 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 the next fiscal year 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 years 2017 through 2021.

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 year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved/ Renewed	First Calendar Year of Collection	Last Calendar Year of Collection	Full Tax Rate (Per $1,000 of Assessed Valuation)
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
Emergency ($1,200,000)	2016	2017	2026	4.40
Total Tax Rate				$39.60

The School District also has levies for bonded debt and permanent improvements totaling $6.43 per $1,000 of assessed valuation. The School District's total tax rate is $46.03 per $1,000 of assessed valuation.

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 is at $24.40 per $1,000 of assessed valuation for collection year 2017, and the effective commercial and industrial real property tax rate is $24.50 per $1,000 of assessed valuation for collection year 2017.

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

<u>General Property Tax</u> – General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon information provided by the Knox County Auditor, as well as current and historical property tax settlements. Knox County's next reappraisal will be in tax year 2020, and the next triennial update will be in tax year 2017. The School District anticipates an increase of $722,000 in fiscal year 2017 due to a small increase in assessed values and due to half a year of collection on the 4.4 mill emergency levy that was passed in 2016. Fiscal year 2018 is expected to increase by $526,000 due to the full year's collection on the emergency levy and a slight increase in public utility personal property assessed values. Since public utility personal property assessed values are expected to continue to increase slightly each year, based on historical trends, general property tax revenues are forecast to increase slightly for fiscal years 2019 through 2021.

<u>Unrestricted Grants-in-Aid</u>

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 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 to a new funding method. However, since a new funding mechanism was not formulated at that time, 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 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 factored 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 or 10.5 percent for fiscal year 2015. For fiscal years 2016 and 2017, the SFPR continues to be used and the calculation of foundation funding is similar to fiscal year 2015. School districts are guaranteed the amount received for fiscal year 2015 (excluding capacity aid, transportation supplement, graduation bonus, and third grade reading bonus), and limited to an increase of 7.5 percent in each fiscal year. For fiscal year 2017, career-technical education funding has been removed from the guarantee base and exempt from the 7.5 percent increase cap. Based on the most current foundation settlement, the School District estimates $3,881,000 in foundation funding for fiscal year 2017, and $3,907,000 for fiscal years 2018 through 2021. The increase from fiscal year 2017 to fiscal year 2018 is due to school finance payment report adjustments related to fiscal years 2015 and 2016 that reduced the total fiscal year 2017 foundation revenues below the calculated funding amount for fiscal year 2017.

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, 34 percent is distributed to school districts, based on student population. The School District anticipates casino revenue of $49,000 in fiscal years 2017 through 2021, for a total unrestricted grants-in-aid amount of $3,930,000 in fiscal year 2017, and $3,956,000 in fiscal years 2018 through 2021.

Restricted Grants-in-Aid

Restricted grants-in-aid consists of career technologies programs and economically disadvantaged funding. For fiscal years 2017 through 2021, the School District anticipates $28,000 in career technologies monies and $71,000 in economically disadvantaged funding for a total restricted grants-in-aid amount of $99,000.

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 reduced reimbursements from the State and increased real property tax revenue. The School District is anticipating an increase in property tax allocation in fiscal year 2017 due to the emergency levy beginning collection in 2017. An increase is also anticipated for fiscal year 2018 due to the emergency levy being in effect for the full fiscal year. The remaining fiscal years are forecast to be consistent with fiscal year 2018.

Property tax allocation revenues consist of the following:

	Forecasted				
Revenue Sources	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Homestead and Rollback	$723,000	$741,000	$741,000	$741,000	$741,000

<u>All Other Revenues</u>

All other revenues consist of the following:

	Forecasted				
	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Open Enrollment Tuition	$410,000	$410,000	$410,000	$410,000	$410,000
Other Tuition	115,000	115,000	115,000	115,000	115,000
Transportation	2,000	2,000	2,000	2,000	2,000
Interest	26,000	29,000	35,000	39,000	40,000
Fees	51,000	1,000	1,000	1,000	1,000
Donations	1,000	1,000	1,000	1,000	1,000
Sale of Asset	3,000	3,000	3,000	3,000	3,000
Medicaid Reimbursements	50,000	50,000	50,000	50,000	50,000
E-Rate	7,000	7,000	7,000	7,000	7,000
Services Provided to Other Schools	39,000	39,000	39,000	39,000	39,000
Other	24,000	24,000	24,000	24,000	24,000
Total	$728,000	$681,000	$687,000	$691,000	$692,000

Open enrollment tuition revenue is expected to increase from fiscal year 2016, based on the latest foundation settlement, and remain flat for the remainder of the forecast period. Other tuition primarily includes special education students and is expected to decrease from fiscal year 2016 due to a decrease in excess costs and remain consistent throughout the remainder of the forecast period.

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 increase from fiscal year 2017 due to an increase in cash balances and an increase in interest rates. Interest revenue is forecast to continue growing over fiscal years 2018 through 2021 as cash balances grow.

Fees include participation fees for extra-curricular music and athletic programs and other fees. In prior fiscal years, fees also included an iPad fee for students who chose to take home their devices. Beginning in fiscal year 2016, the iPad fees are accounted for in a separate fund, thus lowering fees revenue for the general fund. For fiscal year 2017, fees are expected to increase slightly due to a small increase in athletic participation fees. Since the Board approved the elimination of participation fees beginning in fiscal year 2018, fees are forecast to decrease by approximately $50,000 in fiscal year 2018 and remain consistent throughout the remainder of the forecast period.

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 for fiscal years 2017 through 2021.

Medicaid reimbursements for fiscal years 2017 through 2021 are expected to be lower than the prior fiscal year due to a few “true up” payments for prior years being received in fiscal year 2016.

E-rate revenue is expected to be slightly lower than in fiscal year 2016 based on the prorated fiscal year-to-date amount. E-rate was significantly higher in fiscal year 2015, because the School District directly received reimbursements on qualified purchases. For fiscal years 2014 and 2016, the School District primarily used 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. E-rate revenues are forecast to remain consistent throughout the forecast period due to the reduced billing method being used.

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. The Career Center reimburses the School District for half of the costs of this program on a quarterly basis. This amount was higher in fiscal year 2015 due to the final quarterly payment for fiscal year 2014 being received in fiscal year 2015. Therefore, the fiscal year 2014 amounts included only 3 quarterly payments, the fiscal year 2015 amount included five quarterly payments, and the fiscal year 2016 included four quarterly payments. Fiscal year 2017 is forecast to increase slightly based on the quarterly payment amount. Fiscal years 2018 through 2021 are forecast to be consistent with fiscal year 2017.

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. Fiscal years 2017 through 2021 are forecast to be consistent with fiscal year 2016.

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. In addition to regular salaries, it includes payment for substitutes, supplemental contracts, severance pay, board salaries, and student workers. Most employees receive their compensation on a bi-weekly basis. Administrative salaries are set by an administrative agreement.

Staffing levels for the last three fiscal years and the current fiscal year are displayed in the following chart. The amounts represent full time equivalents. Staffing levels for fiscal year 2017 decreased from the prior fiscal year due to a few reductions in classified staff. One teacher position left open by a resignation in the current fiscal year is forecasted to be filled later in fiscal year 2017. In fiscal year 2018, the School District expects to fill a bus driver position left open by a resignation in fiscal year 2017 and to hire four new teachers. Staffing levels for fiscal years 2019 through 2021 are forecast to remain consistent with fiscal year 2018.

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
General Fund:				
Certified	64	63	61	61
Classified	37	37	36	33
Total General Fund:	101	100	97	94
Other Funds:				
Certified	5	7	7	7
Classified	16	12	8	8
Total Other Funds:	21	19	15	15
Total	122	119	112	109

The following table presents a comparison of salaries and wages for fiscal years 2017 through 2021:

	Forecasted				
	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Certified Salaries	$2,801,000	$2,994,000	$3,073,000	$3,147,000	$3,224,000
Classified Salaries	950,000	935,000	952,000	964,000	977,000
Substitute Salaries	66,000	60,000	60,000	60,000	60,000
Supplemental Contracts	138,000	142,000	146,000	150,000	154,000
Severance	32,000	40,000	40,000	40,000	40,000
Other Salaries and Wages	20,000	22,000	22,000	22,000	22,000
Total	$4,007,000	$4,193,000	$4,293,000	$4,383,000	$4,477,000

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives for existing staff. In May 2016, the Board approved a Memorandum of Agreement that is in effect through June 30, 2017. The Memorandum of Agreement allowed for the continuation of the 2013-2016 negotiated agreement, except as amended by the Memorandum of Agreement to allow for step increases or a one-time pay adjustment for fiscal year 2017 for qualifying employees who did not receive an increase in pay due to salary steps. Negotiations for a new contract will begin in early calendar year 2017. No base salary increases have been included in the forecasted salaries for fiscal years 2018 through 2021. Each 1 percent increase in certified salaries will cost the School District approximately $29,000. Certified salaries are forecast to increase in fiscal year 2017 due to step increases and one-time pay adjustments as provided in the Memorandum of Agreement. In fiscal year 2018, certified salaries are forecast to increase due to step increases and the hiring of four new teachers. Certified salaries are expected to continue increasing in fiscal years 2019 through 2021 due to step increases.

Classified salaries are determined by the Board of Education. Classified employees received step increases during fiscal year 2017, or qualifying employees who did not receive an increase in pay due to salary steps received a one-time payment for fiscal year 2017. No base salary increases have been included in the forecasted salaries for fiscal years 2018 through 2021. Each 1 percent increase in classified salaries will cost the School District approximately $9,000. Classified Salaries are expected to increase slightly in fiscal year 2017 due to step increases and one-time payments. These increases were somewhat offset by decreases related to retirements, as well as not filling a bus driver position for the second half of the fiscal year. Classified salaries are expected to decrease in fiscal year 2018 due to savings related to replacing several staff retiring in fiscal year 2017 with new staff at the lower end of the pay scale and due to the one-time payments that were made in fiscal year 2017. These forecasted savings are partly offset by increases related to step increases. For fiscal years 2019 through 2021, classified salaries are forecast to increase due to step increases.

Substitute salaries are anticipated to increase for fiscal year 2017, due to several teachers taking maternity leave and due to having a substitute bus driver for the second half of the school year. Fiscal year 2018 substitute salaries are forecast to decrease due to the hiring of a full-time bus driver to fill the position that was covered by the substitute for the second half of the 2017 fiscal year. Substitute salaries are forecast to remain flat over the remainder of the forecast period.

Supplemental contracts are anticipated to increase in fiscal years 2017 through 2021 due to step increases.

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, qualifying 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 employees shall be credited an additional .25 days at their per diem rate for each year of service in the East Knox Local School District, up to a maximum of 35 years of service or 8.75 additional days of severance. Severance costs are anticipated to increase in fiscal year 2017, due to more employees retiring than in the prior fiscal year. Severance costs are forecast to be consistent with historical averages for the remainder of the forecast period.

Other salaries, which consist of board salaries and student worker wages, are forecast to decrease from the prior fiscal year, because a student worker who helped with iPads and technology in the prior fiscal year is working much less in fiscal year 2017. Other salaries are forecast to increase slightly in fiscal year 2018 as student worker wages are expected return to levels consistent with historical averages, and be consistent throughout the remainder of the forecast period.

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.

The following table presents a comparison of employee's retirement/insurance benefits for fiscal years 2017 through 2021:

	Forecasted				
	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Employer's Retirement	$580,000	$614,000	$629,000	$642,000	$655,000
Health Care/Life Insurance	1,151,000	1,313,000	1,403,000	1,508,000	1,679,000
Workers' Compensation	17,000	17,000	17,000	18,000	18,000
Medicare	57,000	61,000	63,000	64,000	65,000
Unemployment	4,000	4,000	4,000	4,000	4,000
Tuition Reimbursement	5,000	5,000	5,000	5,000	5,000
Total	$1,814,000	$2,014,000	$2,121,000	$2,241,000	$2,426,000

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. For STRS, adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year. For SERS, a refund or an additional payment is completed in the following fiscal year to correct differences between the estimated and actual salaries. The School District pays the employee retirement contributions for its superintendent, treasurer and assistant treasurer. Fiscal year 2017 is expected to decrease because the fiscal year 2016 STRS salary estimate was high, resulting in a credit that reduces the calendar year 2017 STRS payments. Also, no SERS arrearage payment is required after fiscal year 2016. Fiscal year 2018 is expected to increase due to step increases and the hiring of four new teachers. Fiscal years 2019 through 2021 are expected to increase due to step increases. With each 1 percent base increase in salaries, it is estimated to cost the School District an additional $6,000 in STRS and SERS contributions.

In years past, SERS had 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 districts 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 chose option two and had a total arrearage liability of $113,832, with annual payments of $18,972. The District made the final arrearage payment in fiscal year 2016.

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

	Medical	Dental	Vision	Total
Single Rates:				
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
July 1, 2016 to June 30, 2017	684.85	37.09	10.25	732.19
Family Rates:				
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
July 1, 2016 to June 30, 2017	1,933.99	95.60	23.20	2,052.79

Full time employees of the School District contribute 15 percent of the premium for health insurance. There was a 3.27 percent premium increase for health insurance between fiscal years 2016 and 2017. Due to a decrease in the number of employees enrolled in the health insurance coverage, the School District is forecasting a decrease in healthcare costs for fiscal year 2017. Healthcare costs are forecast to increase in fiscal year 2018 due to premium increases and due to hiring four new teachers. Fiscal years 2019 through 2021 are forecast to increase due to increases in premiums. Fiscal years 2020 and 2021 are forecast to have additional increases in insurance expenditures related to the Cadillac Tax. The Cadillac Tax is a 40 percent excise tax on high-cost employer-sponsored health plans and is scheduled to take effect in calendar year 2020. Cadillac Tax is calculated on the cost of plans in excess of set thresholds.

Workers' 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) transitioned to prospective billing.

The bills to be paid in calendar year 2016 included payment on calendar year 2015 wages (policy year 2015) and payment on calendar year 2016 estimated wages (policy year 2016). For this transition policy year, the BWC gave 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 2016, and the School District paid half of the premium for calendar year 2016 in April 2016 and the remaining half in August 2016. The whole premium for 2017 was paid in December 2016. The School District intends to continue paying the premiums for policy years 2018 through 2021 on an annual basis. Workers' compensation for fiscal year 2017 is forecast to increase due to paying half of the 2016 premium and the entire 2017 premium. Fiscal year 2018 is expected to remain consistent with fiscal year 2017 due to both an increase in forecasted salaries, related to salary step increases and new hires, and a rate increase being offset by the additional payment in fiscal year 2017 for part of the 2016 policy year premium. Fiscal year 2019 is expected to remain consistent with fiscal year 2018, while fiscal year 2020 is forecast to increase slightly due to salary step increases. Fiscal year 2021 is expected to remain consistent with fiscal year 2020.

Medicare is based on a percentage of wages and is estimated to increase in fiscal years 2017 due to salary step increases and one-time additional salary payments. Medicare is forecast to increase in fiscal year 2018 due to salary step increases and new hires; increases are also forecast for fiscal years 2019 through 2021 due to salary step increases.

Unemployment is forecast to remain consistent throughout the forecast period.

Tuition reimbursement is forecast to increase in fiscal year 2017 due to more employees taking advantage of this benefit, and remain consistent in fiscal years 2018 through 2021.

Purchased Services

The following table presents a comparison of purchased services for fiscal years 2017 through 2021:

	Forecasted				
	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Professional and Technical Services	$983,000	$1,054,000	$1,133,000	$1,218,000	$1,311,000
Property Services	56,000	59,000	62,000	66,000	69,000
Travel and Meeting Expenses	19,000	19,000	19,000	19,000	19,000
Communication Costs	22,000	22,000	22,000	22,000	22,000
Utility Services	254,000	259,000	265,000	270,000	276,000
Tuition Payments	11,000	11,000	11,000	11,000	11,000
Excess Costs	120,000	120,000	120,000	120,000	120,000
Special Education	22,000	22,000	22,000	22,000	22,000
Open Enrollment	1,812,000	1,856,000	1,902,000	1,902,000	1,902,000
Community School	337,000	337,000	337,000	337,000	337,000
Post Secondary	68,000	68,000	68,000	68,000	68,000
Other Purchased Services	28,000	29,000	29,000	30,000	30,000
Total	$3,732,000	$3,856,000	$3,990,000	$4,085,000	$4,187,000

Professional and technical services are expected to increase in fiscal year 2017 from fiscal year 2016 mainly due to increases in Educational Service Center (ESC) costs and contracted psychologist costs. In fiscal year 2015, the School District had a psychologist being paid from salaries, but for fiscal years 2016 and 2017, the School District is contracting with a psychologist through the ESC, increasing purchased services for these years. These costs are expected to continue to increase throughout the forecast period.

Property services were unusually high in fiscal year 2014, because the School District switched property insurance companies and the due date of the annual premium changed, resulting in the School District's making two payments for property insurance in fiscal year 2014. Fiscal years 2017 through 2021 are forecast to increase slightly each year mainly due to increases in property insurance premiums, as well as increases in supply rentals.

Utility services decreased significantly from fiscal year 2015 to fiscal year 2016 due to a change in the billing method for natural gas for the high school. In fiscal year 2015, the School District paid budget bills for natural gas for the high school; at the end of the period, the School District received a credit for the amount over paid. Beginning in fiscal year 2016, the School District is paying based on actual usage. Based on the prorated fiscal year-to-date amounts for electric and water, these utility services are expected to increase slightly for fiscal year 2017. Natural gas utility costs are also expected to increase for fiscal year 2017 due to rate increases and due to a fairly mild winter in fiscal year 2016. Utility services are forecast to continue to increase throughout fiscal years 2018 through 2021 due to increases in rates.

The School District is anticipating a significant increase in excess costs for fiscal year 2017 from fiscal year 2016 due to an increase in costs for handicapped pupils open-enrolled to other districts. Excess costs are forecast to remain consistent throughout the remainder of the forecast period. Fiscal year 2017 forecasted increases in open enrollment costs, community school costs, and post secondary costs are based upon the latest information from the Ohio Department of Education. Open enrollment costs are forecast to increase in fiscal years 2018 and 2019 as the number of students open enrolling outside the School District continues to grow. Fiscal years 2020 and 2021 are forecast to be consistent with fiscal year 2019 as open enrollment numbers level off as improvements in the School District are realized after passing the emergency levy in 2016. The large increase in post secondary costs for fiscal year 2017 is related to the college credit plus program; these costs are forecast to remain consistent throughout the remainder of the forecast period.

Other purchased services increased significantly in fiscal year 2016 due to the cost of paying another school district to transport a student from the School District beginning in fiscal year 2016. The fiscal year 2017 cost is forecast to increase, based on the latest estimates, and costs are expected to slowly rise over the remainder of the forecast period, with slight increases in fiscal year 2018 and in fiscal year 2020.

Supplies and Materials

The following table presents a comparison of supplies and materials for fiscal years 2017 through 2021:

			Forecasted		
	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
General Supplies and Library Books	$159,000	$166,000	$166,000	$169,000	$171,000
Textbooks	59,000	55,000	55,000	55,000	55,000
Operations, Maintenance and Repair	151,000	153,000	154,000	156,000	158,000
Total	$369,000	$374,000	$375,000	$380,000	$384,000

General supplies and library books are expected to increase in fiscal year 2017, due to the need to replenish instructional supplies which were not purchased in the prior fiscal year. Another increase is forecast for fiscal year 2018, because the School District plans to bring back elementary art and music teachers, who will need to purchase start-up supplies. Fiscal year 2019 is forecast to be in line with fiscal year 2018 due to the increases based on historical trends being offset by a decrease related to the cost of one-time start-up supplies in fiscal year 2018. Fiscal years 2019 through 2021 are forecast to continue increasing consistent with historical trends.

After several years of purchasing few textbooks, textbook purchases are expected to increase significantly in fiscal year 2017. The School District intends to increase the budget for the purchase of textbooks. Also, an additional amount is forecast for fiscal year 2017 for textbooks for the College Credit Plus program. This amount is expected to decrease a little in fiscal year 2018, since some textbooks for the College Credit Plus program are expected to be re-used in subsequent years. Fiscal years 2019 through 2021 are forecast to be consistent with fiscal year 2018.

Operations, maintenance and repair expenditures decreased in fiscal years 2015 and 2016 primarily due to decreases in fuel prices and due to eliminating a bus route. Operations, maintenance and repair expenditures are forecast to increase in fiscal year 2017 due to increases in fuel and tire costs for School District buses. Fiscal years 2018 through 2021 are forecast to increase due to increases in fuel costs.

Other Objects

Other object expenditures consist of dues, fees, and liability insurance. Other object expenditures are forecast in the amount of $170,000 for fiscal year 2017, which is higher than the prior fiscal year. The primary reasons for the increase include higher State examiner costs related to the preparation of GAAP-basis financial statements for fiscal year 2016, and higher auditor and treasurer fees related to increased property tax collections from half a year of collections of the emergency levy. Fiscal year 2018 is forecast to increase to $181,000 due to an increase in auditor and treasurer fees resulting from increased property tax collections related to a whole year’s collection of the emergency levy. Fiscal year 2019 is forecast to decrease slightly due to the payment of a three-year bond for the Superintendent in fiscal year 2018. Fiscal year 2020 is forecast to increase slightly due to a small increase in auditor and treasurer fees resulting from increased public utility personal tax collections. Fiscal year 2021 is expected to be consistent with fiscal year 2020.

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 an expenditure 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 are forecasted to be $61,000 for the fiscal years 2017 through 2021.

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 required for fiscal year 2017 is $171,000 and expected to be approximately $171,000 for the remaining forecasted fiscal years. The School District anticipates $670,000 in offsets for all forecasted fiscal years due to the permanent improvement tax levy. Therefore, no reserve for capital acquisition and improvements is forecasted.

Note 10 – Levies

The School District has placed several levies on the ballot in the last 10 years. 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
November 8, 2016	Emergency	4.4 mill	10 Years	Passed

Note 11 – Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

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 insurance pool deductible is $50,000 per person per fiscal year. For claims in excess of $50,000, the School District is reimbursed from the insurance pool. The School District anticipates the costs of claims will increase in fiscal year 2017, based on fiscal year-to-date averages and an anticipated large claim. The School District increased the premiums in fiscal year 2017, and it is anticipated these premiums will be more than sufficient to cover the claims and administrative costs. The Jefferson Health Plan recommends that the School District maintain a reserve in the internal service fund of approximately $185,000. The fund is forecasted to maintain a minimum of $239,000 reserve balance.

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.

(This Page Intentionally Left Blank)

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
MARCH 7, 2017

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov