



Mary Taylor, CPA
Auditor of State

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY**

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NEW KNOXVILLE LOCAL SCHOOL DISTRICT
ALLEN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

New Knoxville Local School District
Auglaize County
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, (the School District), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, as of June 30, 2006 and 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the years ended June 30, 2006 and 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

April 23, 2007

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of New Knoxville Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

Highlights for fiscal year 2006 are as follows:

- The School District issued bond anticipation notes in June 2006, in the amount of \$2,000,000. None of the proceeds were disbursed by fiscal year end. This provided a 147 percent increase in net assets for the School District in fiscal year 2006.
- The most significant receipt increase was the issuance of bond anticipation notes. Other receipt increases were generated from the receipt of four quarters of income tax receipts. The insignificant increase in disbursements was generally provided from salary increases, utility rate increases, diesel fuel cost increases, and additional grants available to be disbursed within fiscal year 2006.
- In May 2006, the voters passed a 3.3 mill property tax levy and a .25 percent income tax levy to generate sufficient receipts to fund the School District's share of an Ohio School Facilities Commission renovation to begin in fiscal year 2007.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities.

A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

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

Governmental Funds

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

Fiduciary Funds

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

THE SCHOOL DISTRICT AS A WHOLE

Table 1 provides a summary of the School District's net assets for fiscal year 2006 and fiscal year 2005:

	Table 1	
	Net Assets	
	Governmental Activities	
	2006	2005
Assets:		
Current and Other Assets	\$4,170,807	\$1,690,445
Net Assets:		
Restricted	2,751,181	696,749
Unrestricted	1,419,626	993,696
Total Net Assets	\$4,170,807	\$1,690,445

Total net assets increased \$2,480,362, or 147 percent. The primary reasons contributing to the increase in cash balances are as follows:

- The School District collected four quarters of the 1 percent income tax levy that started on January 1, 2005.
- Property taxes received in the capital projects funds were not spent. The School District intended to use a portion of the cash for the School District's share of the Ohio School Facilities Commission project.
- In June 2006, the School District issued \$2,000,000 in bond anticipation notes that were not spent by fiscal year end.

Table 2 reflects the change in net assets for fiscal year 2006 and fiscal year 2005.

	Table 2	
	Change in Net Assets	
	2006	2005
Receipts:		
Program Receipts		
Charges for Services	\$470,400	\$337,971
Operating Grants, Contributions, and Interest	375,931	326,540
Capital Grants and Contributions	17,581	17,197
Total Program Receipts	863,912	681,708

(Continued)

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	<u>2006</u>	<u>2005</u>
General Receipts		
Property Taxes Levied for General Purposes	\$1,078,782	\$1,058,339
Property Taxes Levied for Debt Service	96,070	93,434
Property Taxes Levied for Permanent Improvements	36,923	36,226
Income Taxes	345,493	22,780
Grants and Entitlements	1,854,034	1,816,578
Interest	47,848	26,148
Notes Issued	2,000,000	
Miscellaneous	3,154	44,502
Total General Receipts	<u>5,462,304</u>	<u>3,098,007</u>
Total Receipts	<u>6,326,216</u>	<u>3,779,715</u>
Disbursements:		
Instruction:		
Regular	1,824,963	1,816,198
Special	287,982	164,049
Support Services:		
Pupils	102,216	149,961
Instructional Staff	156,748	168,718
Board of Education	27,522	25,540
Administration	407,191	417,651
Fiscal	115,893	123,905
Operation and Maintenance of Plant	299,681	267,402
Pupil Transportation	114,699	72,085
Central	49,510	46,059
Non instructional Services	100,686	110,944
Extracurricular Activities	232,167	200,953
Capital Outlay	7,830	22,453
Intergovernmental	1,316	
Debt Service:		
Principal Retirement	25,000	25,000
Interest and Fiscal Charges	92,450	93,330
Total Disbursements	<u>3,845,854</u>	<u>3,704,248</u>
Increase in Net Assets	2,480,362	75,467
Net Assets at Beginning of Year	<u>1,690,445</u>	<u>1,614,978</u>
Net Assets at End of Year	<u>\$4,170,807</u>	<u>\$1,690,445</u>

The most significant receipt during fiscal year 2006 was from the issuance of the bond anticipation notes in the amount of \$2,000,000, in note proceeds. These receipts were 32 percent of total receipts.

Program receipts increased by 27 percent primarily from open enrollment and classroom fees. The School District saw an increase in open enrollment receipts and a larger allocation of IDEA B grant receipts from the Ohio Department of Education. Program receipts are primarily represented by restricted intergovernmental receipts, tuition, fees, charges for extracurricular activities, and food service sales.

General receipts represent 86 percent of the School District's total receipts, and, of this amount, almost 34 percent is the result of unrestricted grants and entitlements, which primarily represents State foundation resources. Property and income taxes basically make up the balance of the School District's general receipts. Other receipts, such as interest and miscellaneous receipts are very insignificant and somewhat unpredictable receipt sources.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Disbursements for instruction accounted for 55 percent of all governmental disbursements. Other programs which support the instruction process including pupils, instructional staff, pupil transportation, and central account for approximately 11 percent of governmental disbursements. Maintenance of the School District's facilities represents an additional 8 percent of program disbursements. Therefore, approximately 74 percent of the School District's disbursements were related to the primary functions of providing facilities and delivering education during fiscal year 2006.

Overall, total disbursements increased by 4 percent. Employee salaries, from negotiated agreements, increased by 3 percent. Health care premiums did not increase because the employees agreed to a full PPO program for health care. Due to the additional grant receipts, the School District shifted several salaries and related fringe benefits from regular instruction and pupil support services to special instruction. Also, the disbursements related to the additional IDEA B grant receipts were also recorded within special instruction. Pupil transportation disbursements increased from the increase in diesel fuel costs and the payment for bus repairs at the beginning and end of the fiscal year.

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

	Table 3			
	Governmental Activities		Net Cost of	
	Total Cost of		Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$1,824,963	\$1,816,198	\$1,592,610	\$1,674,305
Special	287,982	164,049	(23,733)	(77,813)
Vocational	0	0	(23,201)	(12,342)
Support Services:				
Pupils	102,216	149,961	98,961	144,961
Instructional Staff	156,748	168,718	156,748	168,718
Board of Education	27,522	25,540	27,522	25,540
Administration	407,191	417,651	407,191	417,651
Fiscal	115,893	123,905	115,893	123,905
Operation and Maintenance of Plant	299,681	267,402	296,081	267,402
Pupil Transportation	114,699	72,085	94,007	63,185
Central	49,510	46,059	43,510	46,059
Non instructional Services	100,686	110,944	(20,097)	(18,649)
Extracurricular Activities	232,167	200,953	89,854	58,835
Capital Outlay	7,830	22,453	7,830	22,453
Intergovernmental	1,316	0	1,316	0
Debt Service:				
Principal Retirement	25,000	25,000	25,000	25,000
Interest and Fiscal Charges	92,450	93,330	92,450	93,330
Total Disbursements	\$3,845,854	\$3,704,248	\$2,981,942	\$3,022,540

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

The above table indicates that only 22 percent of the cost of services is financed through user charges and grants awarded for specific programs. The remaining 78 percent of total cost of services is financed through property taxes, income taxes, and unrestricted grants and entitlements.

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

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund, Bond Retirement debt service fund, and Ohio School Facilities capital projects fund. Fund balance increased significantly in the General Fund from the increase in income tax revenues. Disbursements increased insignificantly by 3 percent.

Property tax receipts and the carryover cash balances in the Bond Retirement debt service fund continue to be sufficient to cover debt service requirements.

The only activity within the Ohio School Facilities capital projects fund was the receipt of bond anticipation notes, in the amount of \$2,000,000.

GENERAL FUND BUDGETING HIGHLIGHTS

The School District prepares an annual budget of revenues and expenditures for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of July. The School District's most significant budgeted fund is the General Fund. During fiscal year 2006, the School District amended its General Fund budget as needed.

For the General Fund, final budgeted revenues changed as a result of lower estimates received on the final amended certificate of estimated resources received from the County Budget Commission. Changes from the final budget to actual receipts were significant due to increased collections for property and income taxes, tuition, and grant revenues.

For appropriations, changes from original to final budget and from final budget to actual disbursements were not significant.

DEBT ADMINISTRATION

On June 14, 2006, the School District issued bond anticipation notes, in the amount of \$2,000,000. The notes have an interest rate of 4.45 percent and mature on April 12, 2007. The notes were issued to renovate the oldest portion of the instructional building. In May 2006, a 3.3 mill levy was approved to pay the note.

The School District had one general obligation bond issue outstanding for \$1,864,768. The levy to repay the bond issue was passed by the voters for 4.68 mills. From increases of assessed property values, the mills have been decreased to 2.5 mills. For further information regarding the School District's long-term obligations, refer to Note 12 the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

CURRENT ISSUES

The School District became eligible for partial funding of the renovation to their instructional building through the Ohio School Facilities Commission. Based on changes in legislation, the permanent improvement property tax levy is eligible to be used for the required .5 mill maintenance requirement. The voters passed a 3.3 mill property tax levy for twenty-three years to fund \$2,000,000 of the School District's portion of the renovation project in May 2006. The property tax receipts begin collection on January 1, 2007.

The voters also passed a .25 percent income tax for twenty-three years to begin on January 1, 2007, to fund \$1,200,000 of the renovation project.

The renovation project consists of replacing the wiring, heating, air conditioning, and ventilation of the instructional building. The project encloses the open space between the gymnasium and the industrial tech department for additional classrooms. The bus maintenance building was demolished in November 2006 to allow for additional parking space and to build a bus port.

The issuance of bonds and the start of construction will occur in 2007 with completion of the renovation in January 2009.

The negotiated agreement with teachers increased salaries by 3.25 percent for fiscal year 2007 and information has been received from the health care provider for increases in premiums between 15 to 20 percent starting January 1, 2007, dependent on the type of coverage provided.

REQUEST FOR INFORMATION

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

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NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,170,807</u>
Net Assets	
Restricted for:	
Debt Service	326,813
Capital Projects	2,156,153
Other Purposes	196,082
Setasides	72,133
Unrestricted	<u>1,419,626</u>
Total Net Assets	<u><u>\$4,170,807</u></u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,419,626	\$326,813	\$2,000,000	\$337,748	\$4,084,187
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	<u>86,620</u>				<u>86,620</u>
Total Assets	<u><u>1,506,246</u></u>	<u><u>326,813</u></u>	<u><u>2,000,000</u></u>	<u><u>337,748</u></u>	<u><u>4,170,807</u></u>
Fund Balances					
Reserved for Textbooks	43,362				43,362
Reserved for Capital Improvements	15,108				15,108
Reserved for Budget Stabilization	13,663				13,663
Reserved for Bus Purchases	14,487				14,487
Reserved for Encumbrances	21,894	198		5,226	27,318
Unreserved, Reported in					
General Fund	1,397,732				1,397,732
Special Revenue Funds				176,369	176,369
Debt Service Fund		326,615			326,615
Capital Projects Funds			<u>2,000,000</u>	<u>156,153</u>	<u>2,156,153</u>
Total Fund Balances	<u><u>\$1,506,246</u></u>	<u><u>\$326,813</u></u>	<u><u>\$2,000,000</u></u>	<u><u>\$337,748</u></u>	<u><u>\$4,170,807</u></u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCE
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Bond Retirement</u>	<u>Ohio School Facilities</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts					
Property Taxes	\$1,078,782	\$96,070		\$36,923	\$1,211,775
Income Taxes	345,493				345,493
Intergovernmental	1,995,375	11,159		215,502	2,222,036
Interest	47,848			1,618	49,466
Tuition and Fees	235,918				235,918
Charges for Services				101,370	101,370
Extracurricular Activities				133,112	133,112
Gifts and Donations	14,691			9,201	23,892
Miscellaneous	2,501			653	3,154
Total Receipts	<u>3,720,608</u>	<u>107,229</u>		<u>498,379</u>	<u>4,326,216</u>
Disbursements					
Current:					
Instruction:					
Regular	1,803,666			21,297	1,824,963
Special	129,843			158,139	287,982
Support Services:					
Pupils	97,427			4,789	102,216
Instructional Staff	156,542			206	156,748
Board of Education	27,522				27,522
Administration	405,962			1,229	407,191
Fiscal	113,294	1,870		729	115,893
Operation and Maintenance of Plant	296,126			3,555	299,681
Pupil Transportation	114,699				114,699
Central	41,254			8,256	49,510
Non-instructional Services				100,686	100,686
Extracurricular Activities	108,111			124,056	232,167
Capital Outlay	7,830				7,830
Intergovernmental	120			1,196	1,316
Debt Service:					
Principal Retirement		25,000			25,000
Interest and Fiscal Charges		92,450			92,450
Total Disbursements	<u>3,302,396</u>	<u>119,320</u>		<u>424,138</u>	<u>3,845,854</u>
Excess of Receipts Over (Under) Disbursements	<u>418,212</u>	<u>(12,091)</u>		<u>74,241</u>	<u>480,362</u>
Other Financing Sources (Uses)					
Notes Issued			2,000,000		2,000,000
Advances In	11,587			341	11,928
Advances Out	(341)			(11,587)	(11,928)
Total Other Financing Sources (Uses)	<u>11,246</u>		<u>2,000,000</u>	<u>(11,246)</u>	<u>2,000,000</u>
Changes in Fund Balances	429,458	(12,091)	2,000,000	62,995	2,480,362
Fund Balances at Beginning of Year	<u>1,076,788</u>	<u>338,904</u>		<u>274,753</u>	<u>1,690,445</u>
Fund Balances at End of Year	<u>\$1,506,246</u>	<u>\$326,813</u>	<u>\$2,000,000</u>	<u>\$337,748</u>	<u>\$4,170,807</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET BASIS AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$1,025,819	\$897,236	\$1,078,782	\$181,546
Income Taxes	272,741	235,410	345,493	110,083
Intergovernmental	1,971,754	1,722,884	1,995,375	272,491
Interest	37,000	37,000	47,399	10,399
Tuition and Fees	180,500	180,500	235,918	55,418
Gifts and Donations	5,360	5,360	14,691	9,331
Miscellaneous	44,143	44,143	2,501	(41,642)
Total Receipts	<u>3,537,317</u>	<u>3,122,533</u>	<u>3,720,159</u>	<u>597,626</u>
Disbursements				
Current:				
Instruction:				
Regular	1,824,247	1,843,601	1,815,206	28,395
Special	44,557	130,157	129,843	314
Support Services:				
Pupils	145,348	114,033	97,752	16,281
Instructional Staff	168,480	163,451	156,791	6,660
Board of Education	26,773	30,333	28,317	2,016
Administration	418,278	414,728	405,962	8,766
Fiscal	123,606	129,231	119,189	10,042
Operation and Maintenance of Plant	295,106	311,656	299,216	12,440
Pupil Transportation	72,610	122,710	114,699	8,011
Central	38,643	41,343	41,254	89
Extracurricular Activities	99,670	111,403	108,111	3,292
Capital Outlay		7,900	7,830	70
Intergovernmental		125	120	5
Total Disbursements	<u>3,257,318</u>	<u>3,420,671</u>	<u>3,324,290</u>	<u>96,381</u>
Excess of Receipts Over Disbursements	<u>279,999</u>	<u>(298,138)</u>	<u>395,869</u>	<u>694,007</u>
Other Financing Sources (Uses)				
Advances In	11,587	11,587	11,587	
Advances Out		(341)	(341)	
Total Other Financing Sources (Uses)	<u>11,587</u>	<u>11,246</u>	<u>11,246</u>	
Changes in Fund Balance	291,586	(286,892)	407,115	694,007
Fund Balance at Beginning of Year	1,023,665	1,023,665	1,023,665	
Prior Year Encumbrances Appropriated	53,123	53,123	53,123	
Fund Balance at End of Year	<u>\$1,368,374</u>	<u>\$789,896</u>	<u>\$1,483,903</u>	<u>\$694,007</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,000	\$12,763
Net Assets		
Endowments	10,000	
Held for Students		12,763
Total Net Assets	\$10,000	\$12,763

See accompanying notes to the basic financial statements.

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust</u>
Additions	
Interest	\$350
Deductions	
Non-instructional Services	<u>350</u>
Change in Net Assets	
Net Assets at Beginning of Year	<u>10,000</u>
Net Assets at End of Year	<u><u>\$10,000</u></u>

See accompanying notes to the basic financial statements.

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

New Knoxville Local School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. The School District is the 602nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by fifteen classified employees, thirty-three certified teaching personnel, and five administrative employees who provide services to 464 students and other community members. The School District currently operates one school building.

A. Reporting Entity

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

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The District prepared and filed financial statements in accordance with GAAP, however they chose to have financial statements prepared on the cash basis of accounting audited. Generally accepted accounting principals include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

1. Governmental Funds

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

2. Fiduciary Funds

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amounts required to reconcile the general fund budget basis financial statement to the statement of cash receipts, disbursements, and changes in fund balance are interest of \$449 that was not recorded and encumbrances of \$21,894 that were recorded on the budgetary basis.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit and repurchase agreements, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$47,848, which includes \$13,353 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

F. Restricted Assets

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

provisions or enabling legislation. Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for the purchase of textbooks and instructional materials, for the acquisition or construction of capital improvements, and for budget stabilization, as well as unexpended revenues restricted for bus purchases.

G. Capital Assets

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

H. Interfund Balances

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

I. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

J. Long-Term Obligations

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

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. The School District did not have any net assets restricted by enabling legislation at June 30, 2006.

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

L. Fund Balance Reserves

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

- 8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
- 9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within two years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$531,772 of the School District's bank balance of \$646,673 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

B. Investments

	Fair Value	Maturity
STAR Ohio	\$114,964	34.8 Days Average
Mutual Fund	2,000,000	43 Days Average
Repurchase Agreement	1,481,382	July 1, 2006
Total Investments	\$3,596,346	

The School District's investment policy does not address any restriction on investments relating to interest rate, credit, or custodial credit risks. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District. The maturity date for repurchase agreements must not exceed thirty days.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

The School District may not invest more than 5 percent of its portfolio in any one issuer, except U.S. government securities, federal agency securities, or repurchase agreements secured by U.S. government securities. The School District's investment in repurchase agreements represents 41 percent of its investment portfolio and the investment in mutual funds represented 56 percent.

4. INCOME TAXES

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and is for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year. Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize and Shelby Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$37,830,970	90.88%	\$39,625,980	92.31%
Public Utility	1,121,040	2.69%	1,061,390	2.47%
Tangible Personal	<u>2,676,022</u>	<u>6.43%</u>	<u>2,240,395</u>	<u>5.22%</u>
Total Assessed Value	<u>\$41,628,032</u>	<u>100.00%</u>	<u>\$42,927,765</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.65		\$50.65	

6. INTERFUND BALANCES

At June 30, 2006, the General Fund had an unpaid interfund cash advance, in the amount of \$341, to other governmental funds to provide cash flow resources until the receipt of grant monies.

7. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2006, the School District contracted for the following insurance coverage.

Provided by the Consolidated Insurance Company	
General Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	12,472,000
Automobile Liability	1,000,000
Provided by the Midwestern Indemnity Company	
Excess Liability	1,000,000

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. RISK MANAGEMENT (Continued)

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

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

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

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$207,389, \$196,115, and \$194,521, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$4,407 made by the School District and \$7,721 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 was \$42,480, \$37,842, and \$30,635, respectively; 49 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$16,292.

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

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

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. For the School District, the amount to fund health care benefits, including the surcharge, was \$19,835 for fiscal year 2006.

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

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. OTHER EMPLOYEE BENEFITS (Continued)

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

B. Health Care Benefits

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

11. NOTES PAYABLE

On June 14, 2006, the School District issued bond anticipation notes, in the amount of \$2,000,000. The notes have an interest rate of 4.45 percent and mature on April 12, 2007. The notes were issued to renovate the oldest portion of the instructional building. In May 2006, a 3.3 mill levy was approved to pay the note. As of fiscal year end, none of the proceeds had been spent.

12. LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

Governmental Activities	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06	Amounts Due Within One Year
General Obligations Bonds					
1998 High School Building					
Serial Bonds 4.00 - 5.00%	\$615,000	\$0	\$25,000	\$590,000	\$40,000
Term Bonds 5.125%	1,235,000	0	0	1,235,000	0
Capital Appreciation Bonds	39,768	0	0	39,768	0
Total General Obligation Bonds	<u>\$1,889,768</u>	<u>\$0</u>	<u>\$25,000</u>	<u>\$1,864,768</u>	<u>\$40,000</u>

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

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2016 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Amount</u>
2016	\$115,000
2017	120,000
2018	125,000
2019	135,000
2020	140,000
2021	145,000
2022	155,000
2023	160,000

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

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

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount of the bonds is \$345,000. For fiscal year 2006, \$14,170 was accreted for a total bond value of \$116,487.

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

The School District's overall debt margin was \$1,701,570 with an unvoted debt margin of \$44,107 at June 30, 2006.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2006, were as follows:

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2007	\$ 40,000	\$ 27,667		\$ 63,294
2008	45,000	25,701		63,294
2009	80,000	22,775		63,294
2010	100,000	18,495		63,294
2011	110,000	13,645		63,294
2012-2016	215,000	11,348		316,468
2017-2021			\$ 635,000	238,440
2022-2025			600,000	61,244
Totals	\$590,000	\$119,631	\$1,235,000	\$932,622

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending	General Obligation Bonds	
	Capital Appreciation	
	Principal	Interest
2007	\$0	\$0
2008	0	0
2009	0	0
2010	0	0
2011	0	0
2012-2016	39,768	305,232
Totals	\$39,768	\$305,232

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

13. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2006, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2006.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2005	\$47,372	\$22,029	\$13,663
Current Year Set Aside Requirement	65,224	65,224	0
Current Year Offsets	0	(36,899)	0
Qualifying Expenditures	(69,234)	(35,246)	0
Balance June 30, 2006	\$43,362	\$15,108	\$13,663

14. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. There was no amount available for expenditures by the School District at June 30, 2006. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator.

The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 520 Industrial Drive, Wapakoneta, Ohio 45895.

B. West Central Ohio Regional Professional Development Center

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

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

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

D. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2006, the School District paid \$19,543 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Auglaize County Educational Academy

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

F. Auglaize County Special Needs School

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

16. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

17. CONTINGENCIES

A. Grants

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

18. SUBSEQUENT EVENTS

On February 26, 2007, the New Knoxville Board of Education approved the issuance of bonds for the advance refunding of the 1998 bond issue in an amount not to exceed \$1,660,000.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of New Knoxville Local School District's financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole.

Highlights for fiscal year 2005 are as follows:

- The voters approved a five-year 1 percent income tax levy in November 2004. Collections began January 1, 2005. The tax is expected to generate approximately \$359,000 per fiscal year.
- Net assets increased almost 5 percent principally from reducing capital disbursements from the Permanent Improvement capital projects fund.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

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

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

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

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

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors. In the statement of net assets and the statement of activities, all of the School District activities are presented as governmental activities including instruction, support services, non-instructional services, extracurricular activities, capital outlay, and debt service disbursements.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

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

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

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

THE SCHOOL DISTRICT AS A WHOLE

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

	Table 1 Net Assets	
	Governmental Activities	
	2005	2004
Assets:		
Current and Other Assets	\$1,690,445	\$1,614,978
Net Assets:		
Restricted	696,749	588,603
Unrestricted	993,696	1,026,375
Total Net Assets	\$1,690,445	\$1,614,978

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Total net assets increased \$75,467, or almost 5 percent. The primary reasons contributing to the increase in cash balances are as follows:

- The School District began collecting receipts from the 1 percent income tax levy.
- Property taxes received in the capital projects funds were not spent. The School District intended to use a portion of the cash for construction of a new addition if the property tax bond levy had passed in November 2005.

Table 2 reflects the change in net assets for fiscal year 2005. Since the School District did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts	
Charges for Services	\$337,971
Operating Grants, Contributions, and Interest	326,540
Capital Grants and Contributions	17,197
Total Program Receipts	681,708
General Receipts	
Property Taxes Levied for General Purposes	\$1,058,339
Property Taxes Levied for Debt Service	93,434
Property Taxes Levied for Permanent Improvements	36,226
Income Taxes Levied for General Purposes	22,780
Grants and Entitlements	1,816,578
Interest	26,148
Miscellaneous	44,502
Total General Receipts	3,098,007
Total Receipts	3,779,715
Disbursements:	
Instruction:	
Regular	1,816,198
Special	164,049
	Continued

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	Governmental Activities 2005
Disbursements:	
Support Services:	
Pupils	149,961
Instructional Staff	168,718
Board of Education	25,540
Administration	417,651
Fiscal	123,905
Operation and Maintenance of Plant	267,402
Pupil Transportation	72,085
Central	46,059
Noninstructional Services	110,944
Extracurricular Activities	200,953
Capital Outlay	22,453
Debt Service:	
Principal Retirement	25,000
Interest and Fiscal Charges	93,330
Total Disbursements	3,704,248
Increase in Net Assets	\$75,467

Program receipts only represent 18 percent of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition and fees and extracurricular activities, and food service sales.

General receipts represent the majority of the School District's total receipts, and of this amount, almost 59 percent is the result of unrestricted grants and entitlements, which primarily represents State foundation resources. Property and income taxes basically make up the balance of the School District's general receipts. Other receipts, such as interest and miscellaneous receipts are very insignificant and somewhat unpredictable receipt sources.

Disbursements for instruction accounted for 53 percent of all governmental disbursements. Other programs which support the instruction process including pupils, instructional staff, pupil transportation, and central account for approximately 12 percent of governmental disbursements. Maintenance of the School District's facilities represents an additional 7 percent of program disbursements. Therefore, approximately 72 percent of the School District's disbursements were related to the primary functions of providing facilities and delivering education during fiscal year 2005.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
	<u>2005</u>	<u>2005</u>
Instruction:		
Regular	\$1,816,198	\$1,674,305
Special	164,049	(77,813)
Vocational		(12,342)
Support Services:		
Pupils	149,961	144,961
Instructional Staff	168,718	168,718
Board of Education	25,540	25,540
Administration	417,651	417,651
Fiscal	123,905	123,905
Operation and Maintenance of Plant	267,402	267,402
Pupil Transportation	72,085	63,185
Central	46,059	46,059
Non-instructional Services	110,944	(18,649)
Extracurricular Activities	200,953	58,835
Capital Outlay	22,453	22,453
Debt Service		
Principal Retirement	25,000	25,000
Interest and Fiscal Charges	93,330	93,330
Total Disbursements	<u><u>\$3,704,248</u></u>	<u><u>\$3,022,540</u></u>

The above table indicates that only 18 percent of the cost of services is financed through user charges and grants awarded for specific programs. The remaining 82 percent of total cost of services is financed through property taxes, income taxes, and nonspecified grants and entitlements.

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

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the cash basis of accounting. The School District's major governmental funds are the General Fund and the Bond Retirement debt service fund. Fund balance did not change significantly for either of these funds.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

GENERAL FUND BUDGETING HIGHLIGHTS

The School District prepares an annual budget of receipts and disbursements for all funds of the School District for use by School District officials and department heads and prepares such other budgetary documents as are required by State statute, including the annual appropriations resolution which is effective the first day of July. The School District's most significant budgeted fund is the General Fund. During fiscal year 2005, the School District amended its General Fund budget as needed.

For the General Fund, final budgeted receipts did not change from the School District's original estimates. The original appropriations were increased slightly from fiscal year 2004 to accommodate salary increases per negotiated agreements.

Changes from the final budget to both actual receipts and disbursements were not significant.

DEBT ADMINISTRATION

The School District had one general obligation bond issue outstanding for \$1,889,768. The levy to repay the bond issue was passed by the voters for 4.68 mills. From increases of assessed property values, the mills have been decreased to 2.5 mills. For further information regarding the School District's long-term obligations, refer to Note 12 the basic financial statements.

CURRENT ISSUES

The School District became eligible for partial funding of an addition to their instructional building through the Ohio School Facilities Commission. Based on changes in legislation, the permanent improvement property tax levy is eligible to be used for the required .5 mills maintenance requirement. The School District asked the voters for an 8.5 mill property tax levy for the School District's portion of the construction project in November 2005. The levy did not pass by 67 percent.

REQUEST FOR INFORMATION

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

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,690,445</u>
Net Assets	
Restricted for:	
Debt Service	329,521
Capital Projects	113,605
Other Purposes	170,559
Setasides	83,064
Unrestricted	<u>993,696</u>
Total Net Assets	<u><u>\$1,690,445</u></u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$993,696	\$329,521	\$271,298	\$1,594,515
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	<u>95,930</u>			<u>95,930</u>
Total Assets	<u>1,089,626</u>	<u>329,521</u>	<u>271,298</u>	<u>1,690,445</u>
Fund Balances				
Reserved for Textbooks	47,372			47,372
Reserved for Capital Improvements	22,029			22,029
Reserved for Budget Stabilization	13,663			13,663
Reserved for Bus Purchases	12,866			12,866
Reserved for Encumbrances	53,123	399	16,127	69,649
Unreserved, Reported in				
General Fund	940,573			940,573
Special Revenue Funds			141,566	141,566
Debt Service Fund		329,122		329,122
Capital Projects Funds			<u>113,605</u>	<u>113,605</u>
Total Fund Balances	<u>\$1,089,626</u>	<u>\$329,521</u>	<u>\$271,298</u>	<u>\$1,690,445</u>

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General	Bond Retirement	Other Governmental	Total
Receipts				
Property Taxes	\$1,058,339	\$93,434	\$36,226	\$1,187,999
Income Taxes	22,780			22,780
Intergovernmental	1,938,137	11,372	180,015	2,129,524
Interest	26,148		715	26,863
Tuition and Fees	118,723			118,723
Charges for Services			107,206	107,206
Extracurricular Activities			112,042	112,042
Gifts and Donations			30,076	30,076
Miscellaneous	44,331		171	44,502
Total Receipts	3,208,458	104,806	466,451	3,779,715
Disbursements				
Current:				
Instruction:				
Regular	1,804,952		11,246	1,816,198
Special	44,557		119,492	164,049
Support Services:				
Pupils	145,253		4,708	149,961
Instructional Staff	168,468		250	168,718
Board of Education	25,540			25,540
Administration	417,071		580	417,651
Fiscal	121,253	1,906	746	123,905
Operation and Maintenance of Plant	265,134		2,268	267,402
Pupil Transportation	72,085			72,085
Central	38,405		7,654	46,059
Non-instructional Services			110,944	110,944
Extracurricular Activities	99,670		101,283	200,953
Capital Outlay			22,453	22,453
Debt Service:				
Principal Retirement		25,000		25,000
Interest and Fiscal Charges		93,330		93,330
Total Disbursements	3,202,388	120,236	381,624	3,704,248
Excess of Receipts Over (Under) Disbursements	6,070	(15,430)	84,827	75,467
Other Financing Sources (Uses)				
Advances In	9,982		11,587	21,569
Advances Out	(11,587)		(9,982)	(21,569)
Total Other Financing Sources (Uses)	(1,605)		1,605	
Changes in Fund Balances	4,465	(15,430)	86,432	75,467
Fund Balances at Beginning of Year	1,085,161	344,951	184,866	1,614,978
Fund Balances at End of Year	\$1,089,626	\$329,521	\$271,298	\$1,690,445

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGE IN FUND BALANCE
BUDGET BASIS AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Receipts				
Property Taxes	\$1,034,892	\$1,034,892	\$1,058,339	\$23,447
Income Taxes			22,780	22,780
Intergovernmental	1,909,994	1,909,994	1,938,137	28,143
Interest	13,000	13,000	26,148	13,148
Tuition and Fees	118,140	118,140	118,723	583
Extracurricular Activities	1,500	1,500		(1,500)
Miscellaneous	8,637	8,637	44,331	35,694
Total Receipts	3,086,163	3,086,163	3,208,458	122,295
Disbursements				
Current:				
Instruction:				
Regular	1,828,170	1,879,120	1,822,548	56,572
Special	28,715	45,965	44,557	1,408
Support Services:				
Pupils	109,119	167,919	145,253	22,666
Instructional Staff	170,555	181,905	168,468	13,437
Board of Education	30,395	30,395	26,773	3,622
Administration	403,184	428,234	418,277	9,957
Fiscal	136,138	131,428	123,606	7,822
Operation and Maintenance of Plant	306,778	357,378	295,106	62,272
Pupil Transportation	104,830	84,330	72,610	11,720
Central	49,300	50,800	38,643	12,157
Extracurricular Activities	93,042	103,542	99,670	3,872
Capital Outlay	85,000	84,710		84,710
Total Disbursements	3,345,226	3,545,726	3,255,511	290,215
Excess of Receipts Under Disbursements	(259,063)	(459,563)	(47,053)	412,510
Other Financing Sources (Uses)				
Advances In	9,982	9,982	9,982	
Advances Out	(25,000)	(25,000)	(11,587)	13,413
Total Other Financing Sources (Uses)	(15,018)	(15,018)	(1,605)	13,413
Changes in Fund Balance	(274,081)	(474,581)	(48,658)	425,923
Fund Balance at Beginning of Year	1,003,938	1,003,938	1,003,938	
Prior Year Encumbrances Appropriated	81,223	81,223	81,223	
Fund Balance at End of Year	\$811,080	\$610,580	\$1,036,503	\$425,923

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,000	\$13,290
Net Assets		
Endowments	10,000	
Held for Students		13,290
	\$10,000	\$13,290
Total Net Assets	\$10,000	\$13,290

See accompanying notes to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Private Purpose Trust
Additions	
Interest	\$64
Miscellaneous	182
	246
Deductions	
Non-instructional Services	500
	(254)
Change in Net Assets	(254)
Net Assets at Beginning of Year	10,254
Net Assets at End of Year	\$10,000

See accompanying notes to the basic financial statements.

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

New Knoxville Local School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established through the consolidation of existing land areas and school districts. The School District serves an area of approximately thirty-four square miles. It is located in Auglaize and Shelby Counties. The School District is the 603rd largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by fifteen classified employees, thirty-three certified teaching personnel, and five administrative employees who provide services to 453 students and other community members. The School District currently operates one school building.

A. Reporting Entity

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

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

The School District participates in six jointly governed organizations and two insurance pools. These organizations are the Auglaize County Local Professional Development Committee, West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The District prepared and filed financial statements in accordance with GAAP, however they chose to have financial statements prepared on the cash basis of accounting audited. Generally accepted accounting principals include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principals Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. **Governmental Funds** - The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non exchange transactions as governmental funds. The School District's major funds are the General Fund and Bond Retirement debt service fund.

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

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

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

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

statement of cash receipts , disbursements, and changes in fund balance are encumbrances of \$53,123 that were recorded on the budgetary basis.

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

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

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposit and repurchase agreements, which are reported at cost, and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$26,148, which includes \$8,265 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

F. Restricted Assets

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted assets in the General Fund include amounts required by State statute to be set aside to create a reserve for textbooks, capital improvements, and budget stabilization, as well as unexpended revenues restricted for bus purchases.

G. Capital Assets

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

H. Interfund Balances

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

I. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting used by the School District.

J. Long-Term Obligations

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

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. The School District did not have any net assets restricted by enabling legislation at June 30, 2005.

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

L. Fund Balance Reserves

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*. Last year the School District reported fund financial statements by fund type using the cash basis of accounting. In implementing the other comprehensive basis of accounting described in Note 2, the fund financial statements now present each major fund in a separate column with non-major funds aggregated and presented in a single column, rather than a column for each fund type. The Lunchroom and Uniform School Supplies funds previously reported as Enterprise funds using the cash basis of accounting are now reclassified as Special Revenue funds under the other comprehensive basis of accounting. Also, the trust fund was reclassified as a Private Purpose Trust fund.

The School District made the following modifications to the fund type cash basis of accounting in implementing the cash basis of accounting as described in Note 2:

	Fund Balance June 30, 2004	General	Debt Service	Other Governmental	Private Purpose Trust	Agency
General	\$1,056,888	\$1,056,888				
Special Revenue	54,598			\$54,598		
Debt Service	344,951		\$344,951			
Capital Projects	82,734			82,734		
Enterprise	75,807	28,273		47,534		
Non-Expendable Trust	10,254				\$10,254	
Agency	12,614					\$12,614
Adjusted Balances June 30, 2004	<u>\$1,637,845</u>	<u>\$1,085,161</u>	<u>\$344,951</u>	<u>\$184,866</u>	<u>\$10,254</u>	<u>\$12,614</u>

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *“Deposit and Investment Risk Disclosure”*.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the School District’s financial statements.

4. DEPOSITS AND INVESTMENTS

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$516,979 of the School District's bank balance of \$696,135 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

B. Investments

As of June 30, 2005, the School District had the following investments.

	Fair Value	Maturity
STAR Ohio	\$110,386	30.4 Days
Repurchase Agreement	918,341	July 15, 2006
Total Investments	<u>\$1,028,727</u>	

The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code. The School District's investment policy does not address any restriction on investments relating to credit or custodial credit risks. For interest rate risk, all investments must mature within two years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The security underlying the repurchase agreement (Federal Home Loan Mortgage Corporation notes) carries a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District may not invest more than 5 percent of its portfolio in any one issuer, except U.S. government or federal agency securities, or repurchase agreements secured by U.S. government securities. The School District's investment in repurchase agreements represents 89.27 percent of its investment portfolio.

5. INCOME TAXES

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and is for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$37,206,940	90.54%	\$37,830,970	90.88%
Public Utility	1,050,850	2.56%	1,121,040	2.69%
Tangible Personal	2,834,596	6.90%	2,676,022	6.43%
Total Assessed Value	<u>\$41,092,386</u>	<u>100.00%</u>	<u>\$41,628,032</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$50.65		\$50.65	

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. INTERFUND BALANCES

At June 30, 2005, the General Fund had an unpaid interfund cash advance, in the amount of \$11,587, to other governmental funds to provide cash flow resources until the receipt of grant monies.

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted for the following insurance coverage.

Provided by the Consolidated Insurance Company	
General Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Building and Contents	10,142,000
Provided by the Netherlands Insurance Company	
Automobile Liability	1,000,000
Provided by the Midwestern Indemnity Company	
Excess Liability	1,000,000

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

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

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

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$196,115, \$194,521, and \$188,953, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$4,085 made by the School District and \$6,900 made by plan members.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$37,842, \$30,635, and \$27,662, respectively; 44 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

10. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$15,400.

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$16,284 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

12. LONG-TERM OBLIGATIONS

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

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
General Obligations Bonds					
1998 High School Building					
Serial Bonds 4.00 – 5.00%	\$640,000	\$0	\$25,000	\$615,000	\$25,000
Term Bonds 5.125%	1,235,000	0	0	1,235,000	0
Capital Appreciation Bonds	39,768	0	0	39,768	0
Total General Obligation Bonds	<u>\$1,914,768</u>	<u>\$0</u>	<u>\$25,000</u>	<u>\$1,889,768</u>	<u>\$25,000</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

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

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1 in each of the years 2016 through 2023 (with the balance of \$140,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$115,000
2017	120,000
2018	125,000
2019	135,000
2020	140,000
2021	145,000
2022	155,000
2023	160,000

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

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

The capital appreciation bonds will mature in fiscal years 2013, 2014, and 2015. The maturity amount of the bonds is \$345,000. For fiscal year 2005, \$12,446 was accreted for a total bond value of \$102,317.

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

The School District's overall debt margin was \$2,203,218 with an unvoted debt margin of \$41,628 at June 30, 2005.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2005, were as follows:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending	General Obligation Bonds			
	Serial		Term	
	Principal	Interest	Principal	Interest
2006	\$ 25,000	\$ 29,156		\$ 63,294
2007	40,000	27,667		63,294
2008	45,000	25,701		63,294
2009	80,000	22,775		63,294
2010	100,000	18,495		63,294
2011-2015	325,000	24,993		316,468
2016-2020			\$ 495,000	267,397
2021-2025			740,000	95,581
Totals	\$615,000	\$148,787	\$1,235,000	\$995,916

Fiscal Year Ending	General Obligation Bonds Capital Appreciation	
	Principal	Interest
	2006	\$0
2007	0	0
2008	0	0
2009	0	0
2010	0	0
2011-2015	28,190	201,810
2016-2020	11,578	103,422
Totals	\$39,768	\$305,232

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

13. SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. For fiscal year 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside at fiscal year end.

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

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2004	\$34,873	\$581	\$13,663
Current Year Set Aside Requirement	64,775	64,775	0
Current Year Offsets	0	(39,679)	0
Qualifying Expenditures	(52,276)	(3,648)	0
Balance June 30, 2005	\$47,372	\$22,029	\$13,663

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. There was no amount available for expenditures by the School District at June 30, 2005. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

15. JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator.

The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 520 Industrial Drive, Wapakoneta, Ohio 45895.

B. West Central Ohio Regional Professional Development Center

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

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

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2005, the School District paid \$18,039 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

E. Auglaize County Educational Academy

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

F. Auglaize County Special Needs School

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

16. INSURANCE POOLS

A. Mercer Auglaize School Employee Benefit Trust

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. INSURANCE POOLS (Continued)

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

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

17. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.



Mary Taylor, CPA

Auditor of State

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

New Knoxville Local School District
Auglaize County
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, (the District), as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 23, 2007 wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 23, 2007, we reported other matters involving internal control over financial reporting we did not deem a reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002. In a separate letter to the District's management dated April 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402

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www.auditor.state.oh.us

New Knoxville Local School District
Auglaize County
Independent Accountants' Report On Internal Control Over
Financial Reporting and on Compliance And Other Matters
Required By *Government Auditing Standards*
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We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

April 23, 2007

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006 AND 2005

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

FINDING NUMBER 2006-001

MATERIAL NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

In thirty-nine percent of the transactions tested for the audit period, the invoice was dated prior to the purchase order date, and there was no evidence that the District followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

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

FINDING NUMBER 2006-001 (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the District should certify that the funds are or will be available prior to the obligation. When prior certification is not possible, "then and now" certification should be used.

The District should certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

Officials Response:

The Board of Education and management are knowledgeable concerning the requirements of 5705.41(D) and are working with various other school personnel to attempt to progressively lower the instances of noncompliance while assuring the continuity of operations. Also, the District has begun to use "Then and Now" certificates in addition to purchase orders.

FINDING NUMBER 2006-002

MATERIAL NONCOMPLIANCE

Classroom Facilities Assistance Program Project Agreement Section III(1)(c) (the Project Agreement) between the Ohio School Facilities Commission and New Knoxville Local School District dated June 28, 2006, required the District to transfer \$2,000,000 from bond or note proceeds within 30 days of their sale and \$1,300,000 immediately to the project construction fund upon execution of the agreement. Auditor of State Bulletin 99-004 states that a project construction fund, fund number 010, should be established to account for both the local share and the State share of construction costs.

On June 14, 2006, the District received the proceeds from \$2,000,000 School Facilities Construction and Improvement Bond Anticipation Notes issued for the purpose of paying the local share of the Classroom Facilities Assistance Program of the Ohio School Facilities Commission. The required \$1,300,000 was not posted to the construction fund by June 30, 2006. The \$2,000,000 proceeds from the sale of the bond anticipation notes were not posted to fund 010 within the required 30 days. As of December 31, 2006, the \$2,000,000 in note proceeds had not been posted to the District's accounting records.

In addition to the project agreement noncompliance, the lack of timely posting of the note proceeds for the local share of the Ohio School Facilities Construction project led to an understatement of the revenues, net assets, fund balance and corresponding entries (bond issuance costs, etc.) in the financial statements and the notes for fiscal 2006 presented for audit. The accompanying financial statements and notes contain the required adjustments to present the proceeds from the sale of the bond anticipation notes properly.

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

FINDING NUMBER 2006-002 (Continued)

Transactions related to the construction project should be posted to the accounting system of the District in accordance with the project agreement and the guidance provided by Auditor of state Bulletin 99-004.

Officials Response:

The note proceeds along with the interest earned to date were posted to the 010 construction project fund on February 1, 2007, when this matter was brought to the Treasurer's attention.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	ORC Section 5705.41 D)	No	Repeated as finding 2006-001.
2004-002	Report level recommendation related to inadequate documentation to support proper approval of expenditures.	Yes	Only one instance of lack of proper documentation in current audit. Procedures implemented after prior audit to assure proper approvals.



Mary Taylor, CPA
Auditor of State

NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 22, 2007