



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

East Knox Local School District
23201 Coshocton Road
Box 68
Howard, Ohio 43028

To the Board of Education:

We have audited the accompanying general purpose financial statements of the East Knox Local School District, Knox County, Ohio, (the District) as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the East Knox Local School District, Knox County, Ohio, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As described in Note 3, the District has implemented Governmental Accounting Standards Board Statement number 32 "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*" as of July 1, 1998.

JIM PETRO
Auditor of State

November 24, 1999

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999**

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits									
Assets									
Equity in Pooled Cash and Cash Equivalents	\$99,660	\$62,470	\$608,227	\$68,488	\$58,875	\$47,868	\$0	\$0	\$945,588
Cash and Cash Equivalents With Fiscal Agent	0	0	35,000	0	0	0	0	0	35,000
Receivables:									
Taxes	2,314,745	0	280,111	103,785	0	0	0	0	2,698,641
Accounts	414	244	0	0	655	0	0	0	1,313
Intergovernmental Receivable	1,700	0	0	0	0	0	0	0	1,700
Prepaid Items	12,448	0	0	0	0	0	0	0	12,448
Inventory Held for Resale	0	0	0	0	7,031	0	0	0	7,031
Materials and Supplies Inventory	0	0	0	0	892	0	0	0	892
Restricted Assets:									
Equity in Pooled Cash and Cash Equivalents	103,311	0	0	0	0	0	0	0	103,311
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0	26,401	0	2,950,931	0	2,977,332
Other Debits									
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0	0	0	0	691,945	691,945
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	3,621,236	3,621,236
Total Assets and Other Debits	\$2,532,278	\$62,714	\$923,338	\$172,273	\$93,854	\$47,868	\$2,950,931	\$4,313,181	\$11,096,437

(continued)

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS (continued)
JUNE 30, 1999**

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	
Liabilities, Fund Equity and Other Credits									
Liabilities									
Accounts Payable	\$5,180	\$2,031	\$0	\$300	\$751	\$0	\$0	\$0	\$8,262
Accrued Wages	415,020	7,662	0	0	10,800	0	0	0	433,482
Compensated Absences Payable	16,826	0	0	0	6,014	0	0	156,881	179,721
Intergovernmental Payable	140,075	336	0	0	9,747	0	0	46,528	196,686
Deferred Revenue	1,622,925	0	196,393	72,766	5,275	0	0	0	1,897,359
Due to Students	0	0	0	0	0	47,868	0	0	47,868
Matured Bonds Payable	0	0	35,000	0	0	0	0	0	35,000
Capital Leases Payable	0	0	0	0	0	0	0	14,772	14,772
Energy Conservation Bonds Payable	0	0	0	0	0	0	0	95,000	95,000
General Obligation Bonds Payable	0	0	0	0	0	0	0	4,000,000	4,000,000
Total Liabilities	2,200,026	10,029	231,393	73,066	32,587	47,868	0	4,313,181	6,908,150
Fund Equity and Other Credits									
Investment in General Fixed Assets	0	0	0	0	0	0	2,950,931	0	2,950,931
Retained Earnings:									
Unreserved	0	0	0	0	61,267	0	0	0	61,267
Fund Balance:									
Reserved for Encumbrances	79,059	12,073	0	37,121	0	0	0	0	128,253
Reserved for Property Taxes	691,820	0	83,718	31,019	0	0	0	0	806,557
Reserved for Budget Stabilization	63,082	0	0	0	0	0	0	0	63,082
Reserved for Bus Purchase Allowance	40,229	0	0	0	0	0	0	0	40,229
Unreserved, Undesignated (Deficit)	(541,938)	40,612	608,227	31,067	0	0	0	0	137,968
Total Fund Equity and Other Credits	332,252	52,685	691,945	99,207	61,267	0	2,950,931	0	4,188,287
Total Liabilities, Fund Equity and Other Credits	\$2,532,278	\$62,714	\$923,338	\$172,273	\$93,854	\$47,868	\$2,950,931	\$4,313,181	\$11,096,437

See accompanying notes to the general purpose financial statements

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Revenues					
Property and Other Local Taxes	\$2,276,610	\$0	\$386,445	\$100,509	\$2,763,564
Intergovernmental	2,952,341	148,038	49,216	11,888	3,161,483
Interest	66,734	1,563	0	0	68,297
Tuition and Fees	4,926	0	0	0	4,926
Extracurricular Activities	0	67,813	0	0	67,813
Contributions and Donations	100	0	0	0	100
Rentals	440	0	0	0	440
Miscellaneous	6,844	10,795	0	0	17,639
<i>Total Revenues</i>	<u>5,307,995</u>	<u>228,209</u>	<u>435,661</u>	<u>112,397</u>	<u>6,084,262</u>
Expenditures					
Current:					
Instruction:					
Regular	2,647,887	32,784	0	0	2,680,671
Special	545,812	108,184	0	0	653,996
Vocational	123,229	0	0	0	123,229
Support Services:					
Pupils	131,330	4,558	0	0	135,888
Instructional Staff	61,300	0	0	0	61,300
Board of Education	10,060	0	0	0	10,060
Administration	659,115	3,142	0	0	662,257
Fiscal	160,849	605	9,015	0	170,469
Operation and Maintenance of Plant	438,257	0	0	0	438,257
Pupil Transportation	419,231	0	0	0	419,231
Central	17,183	9,543	0	0	26,726
Operation of Non-Instructional Services	1,534	0	0	0	1,534
Extracurricular Activities	103,576	71,093	0	0	174,669
Capital Outlay	0	0	0	76,318	76,318
Debt Service:					
Principal Retirement	0	0	130,000	12,095	142,095
Interest and Fiscal Charges	0	0	230,010	3,063	233,073
<i>Total Expenditures</i>	<u>5,319,363</u>	<u>229,909</u>	<u>369,025</u>	<u>91,476</u>	<u>6,009,773</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(11,368)</u>	<u>(1,700)</u>	<u>66,636</u> *	<u>20,921</u>	<u>74,489</u>
Other Financing Sources (Uses)					
Operating Transfers In	0	0	36,600	0	36,600
Operating Transfers Out	(36,600)	0	0	0	(36,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(36,600)</u>	<u>0</u>	<u>36,600</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(47,968)</u>	<u>(1,700)</u>	<u>103,236</u>	<u>20,921</u>	<u>74,489</u>
<i>Fund Balances Beginning of Year</i>	<u>380,220</u>	<u>54,385</u>	<u>588,709</u>	<u>78,286</u>	<u>1,101,600</u>
<i>Fund Balances End of Year</i>	<u><u>\$332,252</u></u>	<u><u>\$52,685</u></u>	<u><u>\$691,945</u></u>	<u><u>\$99,207</u></u>	<u><u>\$1,176,089</u></u>

See accompanying notes to the general purpose financial statements

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	General		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$2,257,962	\$2,268,432	\$10,470
Intergovernmental	2,663,381	2,542,514	(120,867)
Interest	63,000	66,734	3,734
Tuition and Fees	500	4,693	4,193
Extracurricular Activities	0	0	0
Contributions and Donations	0	100	100
Rentals	200	440	240
Miscellaneous	2,300	9,886	7,586
<i>Total Revenues</i>	<u>4,987,343</u>	<u>4,892,799</u>	<u>(94,544)</u>
Expenditures			
Current:			
Instruction:			
Regular	2,349,290	2,285,452	63,838
Special	475,197	474,433	764
Vocational	127,965	127,489	476
Support Services:			
Pupils	135,542	128,180	7,362
Instructional Staff	64,227	61,071	3,156
Board of Education	15,081	13,218	1,863
Administration	681,946	669,656	12,290
Fiscal	160,398	159,974	424
Operation and Maintenance of Plant	452,128	447,602	4,526
Pupil Transportation	473,995	460,940	13,055
Central	19,830	15,059	4,771
Operation of Non-Instructional Services	1,550	1,541	9
Extracurricular Activities	106,780	103,749	3,031
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenditures</i>	<u>5,063,929</u>	<u>4,948,364</u>	<u>115,565</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(76,586)</u>	<u>(55,565)</u>	<u>21,021</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	(36,600)	(36,600)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(36,600)</u>	<u>(36,600)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(113,186)</u>	<u>(92,165)</u>	<u>21,021</u>
<i>Fund Balances Beginning of Year</i>	38,967	38,967	0
<i>Prior Year Encumbrances Appropriated</i>	<u>123,187</u>	<u>123,187</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$48,968</u>	<u>\$69,989</u>	<u>\$21,021</u>

(continued)

Special Revenue			Debt Service		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$783,173	\$403,763	(\$379,410)
180,635	148,038	(32,597)	38,500	49,216	10,716
1,100	1,563	463	0	0	0
0	0	0	0	0	0
67,420	67,813	393	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
15,470	10,641	(4,829)	0	0	0
<u>264,625</u>	<u>228,055</u>	<u>(36,570)</u>	<u>821,673</u>	<u>452,979</u>	<u>(368,694)</u>
41,730	33,451	8,279	0	0	0
124,082	114,084	9,998	0	0	0
0	0	0	0	0	0
5,000	4,549	451	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
3,020	3,020	0	0	0	0
605	605	0	10,000	9,015	985
0	0	0	0	0	0
0	0	0	0	0	0
11,787	9,005	2,782	0	0	0
0	0	0	0	0	0
90,099	81,365	8,734	0	0	0
0	0	0	130,000	130,000	0
0	0	0	230,010	230,010	0
<u>276,323</u>	<u>246,079</u>	<u>30,244</u>	<u>370,010</u>	<u>369,025</u>	<u>985</u>
<u>(11,698)</u>	<u>(18,024)</u>	<u>(6,326)</u>	<u>451,663</u>	<u>83,954</u>	<u>(367,709)</u>
0	0	0	36,600	36,600	0
0	0	0	0	0	0
0	0	0	36,600	36,600	0
(11,698)	(18,024)	(6,326)	488,263	120,554	(367,709)
50,424	50,424	0	487,673	487,673	0
16,503	16,503	0	0	0	0
<u>\$55,229</u>	<u>\$48,903</u>	<u>(\$6,326)</u>	<u>\$975,936</u>	<u>\$608,227</u>	<u>(\$367,709)</u>

(continued)

**AND CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES (continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Capital Projects		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property and Other Local Taxes	\$94,093	\$102,035	\$7,942
Intergovernmental	18,217	11,888	(6,329)
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Contributions and Donations	0	0	0
Rentals	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>112,310</u>	<u>113,923</u>	<u>1,613</u>
Expenditures			
Current:			
Instruction:			
Regular	47,139	43,767	3,372
Special	0	0	0
Vocational	0	0	0
Support Services:			
Pupils	0	0	0
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	2,500	2,294	206
Operation and Maintenance of Plant	81,107	67,541	13,566
Pupil Transportation	15,401	15,401	0
Central	0	0	0
Operation of Non-Instructional Services	0	0	0
Extracurricular Activities	0	0	0
Debt Service:			
Principal Retirement	12,095	12,095	0
Interest and Fiscal Charges	3,063	3,063	0
<i>Total Expenditures</i>	<u>161,305</u>	<u>144,161</u>	<u>17,144</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(48,995)</u>	<u>(30,238)</u>	<u>18,757</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	<u>(48,995)</u>	<u>(30,238)</u>	<u>18,757</u>
<i>Fund Balances Beginning of Year</i>	12,311	12,311	0
<i>Prior Year Encumbrances Appropriated</i>	<u>48,993</u>	<u>48,993</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u><u>\$12,309</u></u>	<u><u>\$31,066</u></u>	<u><u>\$18,757</u></u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$3,135,228	\$2,774,230	(\$360,998)
2,900,733	2,751,656	(149,077)
64,100	68,297	4,197
500	4,693	4,193
67,420	67,813	393
0	100	100
200	440	240
17,770	20,527	2,757
<u>6,185,951</u>	<u>5,687,756</u>	<u>(498,195)</u>
2,438,159	2,362,670	75,489
599,279	588,517	10,762
127,965	127,489	476
140,542	132,729	7,813
64,227	61,071	3,156
15,081	13,218	1,863
684,966	672,676	12,290
173,503	171,888	1,615
533,235	515,143	18,092
489,396	476,341	13,055
31,617	24,064	7,553
1,550	1,541	9
196,879	185,114	11,765
142,095	142,095	0
233,073	233,073	0
<u>5,871,567</u>	<u>5,707,629</u>	<u>163,938</u>
<u>314,384</u>	<u>(19,873)</u>	<u>(334,257)</u>
36,600	36,600	0
<u>(36,600)</u>	<u>(36,600)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>
314,384	(19,873)	(334,257)
589,375	589,375	0
188,683	188,683	0
<u>\$1,092,442</u>	<u>\$758,185</u>	<u>(\$334,257)</u>

**COMBINED STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise
Operating Revenues	
Sales	\$204,758
Other	5,214
	<u>209,972</u>
<i>Total Operating Revenues</i>	<u>209,972</u>
Operating Expenses	
Salaries and Wages	76,254
Fringe Benefits	25,067
Purchased Services	6,765
Materials and Supplies	20,425
Cost of Sales	158,950
Depreciation	6,317
	<u>293,778</u>
<i>Total Operating Expenses</i>	<u>293,778</u>
<i>Operating Loss</i>	<u>(83,806)</u>
Non-Operating Revenues	
Donated Commodities	12,469
Interest	1,695
Operating Grants	63,424
	<u>77,588</u>
<i>Total Non-Operating Revenues</i>	<u>77,588</u>
<i>Net Loss</i>	(6,218)
<i>Retained Earnings Beginning of Year</i>	<u>67,485</u>
<i>Retained Earnings End of Year</i>	<u>\$61,267</u>

See accompanying notes to the general purpose financial statements

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sales	\$235,138	\$205,371	(\$29,767)
Interest	1,000	1,695	695
Operating Grants	49,000	63,424	14,424
Other	7,500	4,559	(2,941)
<i>Total Revenues</i>	<u>292,638</u>	<u>275,049</u>	<u>(17,589)</u>
Expenses			
Salaries and Wages	74,394	74,374	20
Fringe Benefits	33,835	32,833	1,002
Purchased Services	7,674	7,652	22
Materials and Supplies	174,778	164,263	10,515
<i>Total Expenses</i>	<u>290,681</u>	<u>279,122</u>	<u>11,559</u>
<i>Excess of Revenues Over (Under) Expenses</i>	1,957	(4,073)	(6,030)
<i>Fund Equity Beginning of Year</i>	46,137	46,137	0
<i>Prior Year Encumbrances Appropriated</i>	<u>9,266</u>	<u>9,266</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$57,360</u></u>	<u><u>\$51,330</u></u>	<u><u>(\$6,030)</u></u>

See accompanying notes to the general purpose financial statements

**COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$205,371
Cash Received from Other Operating Sources	4,559
Cash Payments for Goods and Services	(164,370)
Cash Payments to Employees for Services	(74,374)
Cash Payments for Employee Benefits	(32,833)
<i>Net Cash Used for Operating Activities</i>	(61,647)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	63,424
Cash Flows from Investing Activities	
Interest on Investments	1,695
<i>Net Increase in Cash and Cash Equivalents</i>	3,472
<i>Cash and Cash Equivalents Beginning of Year</i>	55,403
<i>Cash and Cash Equivalents End of Year</i>	\$58,875
	(continued)

**COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE (continued)
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	Enterprise
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>	
<i>Operating Loss</i>	(\$83,806)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	6,317
Donated Commodities Used During Year	12,469
(Increase)/Decrease in Assets:	
Accounts Receivable	(42)
Inventory Held for Resale	844
Materials and Supplies Inventory	253
Increase/(Decrease) in Liabilities:	
Accounts Payable	(1,543)
Accrued Wages	568
Compensated Absences Payable	1,312
Intergovernmental Payable	1,981
<i>Total Adjustments</i>	22,159
<i>Net Cash Used for Operating Activities</i>	(\$61,647)

See accompanying notes to the general purpose financial statements

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Knox Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. This Board of Education controls the School District's two instructional/support facilities staffed by 4 administrators, 48 noncertified and 67 certificated full time teaching personnel who provide services to 1,087 students and other community members.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For East Knox Local School District, this includes general operations, food service, preschool, before/after care 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 for the organization. The School District has no component units.

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Parents and Teachers for Students, Athletic Boosters, Music Boosters and Renaissance Club The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The School District is associated with a jointly governed organization and a public entity risk pool. These organizations are presented in Note 17 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

Tri-River Educational Computer Association

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Knox Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund

The general fund is the operating fund of the School District and 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.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation - Fund Accounting (continued)

Governmental Fund Types: (continued)

Debt Service Fund

The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The School District has no trust funds. The School District's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and student fees.

The School District reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 1999, and delinquent property taxes, whose availability is indeterminable and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the object level within each fund and function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Knox County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 1999.

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriations or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Data (continued)

Appropriations (continued)

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the combined balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits.

During fiscal year 1999, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$66,734 which includes \$53,627 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used. The governmental funds did not have any significant inventory on hand at June 30, 1999.

G. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside by the School District to create a reserve for budget stabilization. See Note 21 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three hundred dollars. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and became measurable.

The School District currently participates in several State and federal programs, categorized as follows:

Entitlements

General Fund

- State Foundation Program
- School Bus Purchase
- State Property Tax Relief

Special Revenue Funds

- Textbook/Instructional Materials Subsidy
- Disadvantaged Pupil Impact Aid

Non-Reimbursable Grants

Special Revenue Funds

- Title VIB
- Title I
- Title VI
- Educational Management Information System
- Professional Development
- School to Work
- Martha Holden Jennings Foundation

Capital Projects Fund

- School Net

Reimbursable Grants

General Fund

- Driver Education Reimbursement

Proprietary Funds

- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to 52 percent of governmental fund revenue during the 1999 fiscal year.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. In general, amounts paid after sixty days are considered not to have been paid with current available financial resources. Bonds and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the enterprise funds that are not subject to repayment. The School District does not have any contributed capital.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization and bus purchase allowance.

The fund balance reserved for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

O. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGES IN ACCOUNTING PRINCIPLES

The School District has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employee Deferred Compensation Plan (OPEDCP). On September 1, 1998, the OPEDCP created a trust for the assets of the plan for which the School District has no fiduciary responsibility. Therefore, the balance of the OPEDCP is no longer presented as part of the School District's financial statements.

4. FUND DEFICIT

The Title VI-B special revenue fund had deficit fund balance at June 30, 1999 of \$87. The deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual, Enterprise Fund Type are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$47,968)	(\$1,700)	\$103,236	\$20,921
Net Adjustments for Revenue Accruals	(6,869)	(154)	17,318	1,526
Net Adjustments for Expenditure Accruals	95,654	(2,603)	0	(15,263)
Adjustment for Encumbrances	(132,982)	(13,567)	0	(37,422)
Budget Basis	(\$92,165)	(\$18,024)	\$120,554	(\$30,238)

Net Loss/Excess of Revenues
Over (Under) Expenses and
Proprietary Fund Type

GAAP Basis	(\$6,218)
Net Adjustment for Revenue Accruals	(42)
Net Adjustment for Expense Accruals	3,415
Depreciation Expense	6,317
Adjustment for Encumbrances	(7,545)
Budget Basis	(\$4,073)

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

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

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or 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 obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain Banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

6. DEPOSITS AND INVESTMENTS (continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classification 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$68,420 and the bank balance was \$170,698. Of the bank balance:

- A. \$108,066 was covered by federal depository insurance; and
- B. \$62,632 was collateralized with securities held by the pledging financial institution's agent in the School District's name.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
STAROhio	\$1,015,479

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

6. DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,083,899	\$0
Investments of the Cash Management Pool:		
STAROhio	(1,015,479)	1,015,479
GASB Statement No. 3	\$68,420	\$1,015,479

7. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 1999 for real and public utility property taxes represents collections of calendar 1998 taxes. Property tax payments received during calendar 1999 for tangible personal property (other than public utility property) is for calendar 1999 taxes.

1999 real property taxes are levied after April 1, 1999, on the assessed value as of January 1, 1999, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 1999 public utility property taxes became a lien December 31, 1998, are levied after April 1, 1999 and are collected in 2000 with real property taxes.

1999 tangible personal property taxes are levied after April 1, 1998, on the value as of December 31, 1998. Collections are made in 1999. Tangible personal property assessments are twenty-five percent of true value.

The assessed values upon which the fiscal year 1999 taxes were collected are:

	1998 Second- Half Collections		1999 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$96,295,540	92.68 %	\$100,575,280	92.96 %
Public Utility Personal	6,651,590	6.40	6,679,920	6.17
Tangible Personal Property	952,275	0.92	938,115	0.87
Total	\$103,899,405	100.00 %	\$108,193,315	100.00 %
Tax rate per \$1,000 of assessed valuation	\$44.00		\$44.00	

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

7. PROPERTY TAXES (continued)

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 later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Knox, Coshocton, and Licking Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 1999, are available to finance fiscal year 1999 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including East Knox Local School District. The County Auditor periodically remits to the School District its portion of taxes. Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable as of June 30, 1999. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the School District as an advance at June 30, 1999, was \$691,820 in the general fund, \$83,718 in the bond retirement and \$31,019 in the permanent improvements capital projects fund.

8. RECEIVABLES

Receivables at June 30, 1999, consisted of taxes, accounts (rent and tuition), intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
General Fund:	
SchoolNet Reimbursement	\$1,500
Drivers' Education	200
Total General	\$1,700

9. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$162,278
Less: accumulated depreciation	(135,877)
Net Fixed Assets	\$26,401

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

9. FIXED ASSETS (continued)

A summary of the changes in general fixed assets during fiscal year 1999 follows:

	Balance 6/30/98	Additions	Deductions	Balance 6/30/99
Land and Improvements	\$108,520	\$0	\$0	\$108,520
Buildings	1,182,388	0	0	1,182,388
Vehicles	521,030	48,204	0	569,234
Furniture and Equipment	1,019,477	71,312	0	1,090,789
Total General Fixed Assets	<u>\$2,831,415</u>	<u>\$119,516</u>	<u>\$0</u>	<u>\$2,950,931</u>

There was no significant construction in progress at June 30, 1999.

10. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 1999, the School District contracted with Acordia/McElroy-Minister for property and general liability insurance. There is a \$1,000 deductible. Utica National Insurance Group covers building and business personal property with a \$1,000 deductible and a \$14,310,000 limit.

Professional liability is protected by Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible with an Umbrella limit of \$3,000,000. Vehicles are covered by Nationwide Insurance Company and hold a \$50 deductible for comprehensive and \$100 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 1999, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP 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 GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$59,224, \$63,699 and \$67,376, respectively; 49.92 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$29,660 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$149,622, \$248,189 and \$263,700, respectively; 83.48 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$24,721 represents the unpaid contribution for fiscal year 1999, and is recorded as a liability within the respective funds.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

11. DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

12. 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the School District, this amount equaled \$199,496 during fiscal year 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 1999, the minimum pay has been established at \$12,400. For the School District, the amount to fund health care benefits, including surcharge, during the 1999 fiscal year equaled \$48,456.

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 125 percent of the annual health care expenses. Expense for health care at June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS had approximately 50,000 participants currently receiving health care benefits.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators, who are not on a twelve month contract, do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 195 days for certified and 120 days for classified employees.

B. Health Care Benefits

The School District provides health and dental insurance to most employees through Anthem Blue Cross/Blue Shield for all regular certified and noncertified employees. The School District also provides life insurance and accidental death and dismemberment insurance to most employees in the amount of \$20,000, for all regular certified and noncertified employees.

14. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, the School District entered into capitalized leases for copiers, a scrubber and a chair lift.

The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$45,966, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999.

Fiscal Year Ending June 30,	General Long-Term Obligations
2000	11,360
2001	4,833
Total minimum lease payments	16,193
Less: amount representing interest	(1,421)
Present value of minimum lease payments	\$14,772

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

15. LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 1999, were as follows:

	Principal Outstanding 6/30/98	Additions	Deductions	Principal Outstanding 6/30/99
Capital Lease	\$26,867	\$0	\$12,095	\$14,772
General Obligation Bonds:				
1993 School Improvement 5.4%-6.5%	4,100,000	0	100,000	4,000,000
1994 Energy Conservation 6.0%	125,000	0	30,000	95,000
Compensated Absences	153,159	14,635	10,913	156,881
Intergovernmental Payable	39,429	46,528	39,429	46,528
Total General Long-Term Obligations	<u>\$4,444,455</u>	<u>\$61,163</u>	<u>\$192,437</u>	<u>\$4,313,181</u>

The capital lease obligation will be paid from the permanent improvement capital projects. The school improvement bonds which mature in December of 2018 and the energy conservation bonds which mature in November of 2001 will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

The School District's overall legal debt margin was \$9,737,398 with an unvoted debt margin of \$108,193 at June 30, 1999. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 1999, are as follows:

Fiscal Year Ending June 30,	Energy Conservation Bond	School Improvement Bond	Total General Obligation Debt
2000	327,110	34,800	361,910
2001	335,060	33,000	368,060
2002	346,960	36,050	383,010
2003	352,850	0	352,850
2004	353,160	0	353,160
2005-2009	1,684,925	0	1,684,925
2010-2013	1,566,795	0	1,566,795
2014-2019	1,484,685	0	1,484,685
Total Principal and Interest	6,451,545	103,850	6,555,395
Less: Interest	(2,451,545)	(8,850)	(2,460,395)
Total Principal	<u>\$4,000,000</u>	<u>\$95,000</u>	<u>\$4,095,000</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains three enterprise funds to account for the operations of food service, after/before care and uniform school supplies. The table below reflects in a summarized format the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 1999.

	Food Service	Uniform School Supplies	Before/After School Care	Total Enterprise Funds
Operating Revenues	\$164,509	\$45,463	\$0	\$209,972
Depreciation	6,317	0	0	6,317
Operating Income (Loss)	(84,231)	449	(24)	(83,806)
Donated Commodities	12,469	0	0	12,469
Operating Grants	63,424	0	0	63,424
Net Income (Loss)	(6,643)	449	(24)	(6,218)
Net Working Capital	24,795	16,072	13	40,880
Total Assets	77,619	16,222	13	93,854
Long-Term Compensated Absences Payable	6,014	0	0	6,014
Total Equity	45,182	16,072	13	61,267
Encumbrances at 6/30/99	6,784	761	0	7,545

17. JOINTLY GOVERNED ORGANIZATION AND PUBLIC ENTITY RISK POOL

A. Jointly Governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Association (TRECA), which is a computer consortium. TRECA is association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$41,975 to TRECA during fiscal year 1999 for services. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

B. Public Entity Risk Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

18. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program" which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 1999, the School District received \$2,557,815 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement 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, 1999.

B. Litigation

The School District is party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the School District.

20. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the School District's operations.

The School District has completed an inventory of computer systems and other equipment necessary to conducting School District operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

Vendors, including utility vendors, whose systems have been identified as mission critical to the School District have been contacted about Year 2000 compliance issues. Vendors are responsible for remediating their systems. The School District is developing a contingency plan.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

20. YEAR 2000 ISSUE (continued)

Knox, Coshocton, Licking Counties collect property taxes for distribution to the School District. Knox, Coshocton, and Licking Counties are responsible for remediating the tax collection system.

The School District uses the State of Ohio Uniform School Accounting System software for its financial reporting and the State of Ohio Uniform School Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The Northwest Ohio Computer Association, State Software Development Team states,

“The payroll processing software supported with the OECN State Software is compliant with the Year 2000, beginning with the September 1997 release of USPS V4.0.

The accounting software supported with the OECN State Software will be compliant with the Year 2000, beginning with the June 1999 release of USAS V6.1.

The equipment inventory and vehicle inventory system software supported with OECN State software will be compliant with the Year 2000, beginning with the December 1999 release of SAAS V2.0.

The education management information system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the September 1999 release of EMIS V1.7.”

The State of Ohio distributes a substantial sum of money to the School District in the form of “Foundation” payments. Further, the State processes a significant amount of financial and non-financial information about the School District through EMIS. The State is responsible for remediating these systems.

The County is solely responsible for any costs associated with the tax collection system project. The State is solely responsible for any costs associated with the Foundation processing and EMIS systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until year 2000 and thereafter. Management cannot assure that the School District is or will be Year 2000 ready, that the School District’s remediation efforts will be successful in whole or in part, or that parties with whom the School District does business will be year 2000 ready.

21. SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on 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 year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization. The School District also receives monies designated for school bus purchases. This amount is shown as a reserve for bus purchases.

The following information describes the changes in the amounts set-aside for budget stabilization , textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

21. SET-ASIDES (continued)

	Budget Stabilization Reserve	Textbook/ Instructional Materials	Capital Improvement	Totals
The balance of the set-aside carried forward from the prior year	\$26,118	\$0	\$0	\$26,118
Current year set-aside requirements	36,964	73,927	73,927	184,818
Offsets during the fiscal year	0	(15,845)	(102,035)	(117,880)
Qualifying expenditures during the fiscal year	0	(59,774)	0	(59,774)
Total	<u>\$63,082</u>	<u>(\$1,692)</u>	<u>(\$28,108)</u>	<u>\$33,282</u>
The balance of the set-aside carried forward to the next fiscal year	<u>\$63,082</u>	<u>\$0</u>	<u>\$0</u>	<u>\$63,082</u>
Amount restricted for bus purchase allowance				<u>40,229</u>
Total restricted assets				<u><u>\$103,311</u></u>

Although the School District had offsets and qualifying disbursements during the fiscal year that reduced the set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

East Knox Local School District
23201 Coshocton Road
Box 68
Howard, Ohio 43028

To the Board of Education:

We have audited the general purpose financial statements of East Knox Local School District, Knox County, Ohio, (the District), as of and for the year ended June 30, 1999, and have issued our report thereon dated November 24, 1999, wherein we noted that the District changed its method of accounting for deferred compensation plans. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 24, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 24, 1999.

This report is intended for the information and use of the audit committee, management, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

November 24, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 25, 2000**