

**East Knox Local
School District**

*Single Audit
Financial Statements*

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
East Knox Local School District
23201 Coshocton Road
PO Box 68
Howard, Ohio 43028-0068

We have reviewed the Independent Auditor's Report of the East Knox Local School District, Knox County, prepared by Rea & Associates, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East Knox Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 14, 2005

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 2, 2004

The Board of Education
East Knox Local School District
Howard, Ohio 43028

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of East Knox Local School District as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 *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 the 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.

Ohio Administrative Code Section 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the District as of and for the year ended June 30, 2004 in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the matters described in paragraph three above, we are unable to express, and we do not express, an opinion on the Schedule of Federal Awards.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2004, on our consideration of East Knox Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, board of trustees and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

EAST KNOX LOCAL SCHOOL DISTRICT

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

| | Governmental Fund Types | | | | Total |
|--|-------------------------|--------------------|-------------------|---------------------|----------------------|
| | General | Special Revenue | Debt Service | Capital Projects | (Memorandum Only) |
| CASH RECEIPTS | | | | | |
| Taxes | \$ 3,808,875 | \$ 0 | \$ 338,370 | \$ 123,235 | \$ 4,270,480 |
| Intergovernmental | 4,269,297 | 500,299 | 41,003 | 14,199 | 4,824,798 |
| Investment Income | 41,884 | 244 | 180 | 0 | 42,308 |
| Tuition and Fees | 217,897 | 0 | 0 | 0 | 217,897 |
| Extracurricular Activities | 0 | 61,256 | 0 | 0 | 61,256 |
| Miscellaneous | 32,997 | 25,236 | 758 | 517 | 59,508 |
| Total Cash Receipts | 8,370,950 | 587,035 | 380,311 | 137,951 | 9,476,247 |
| CASH DISBURSEMENTS: | | | | | |
| Instruction: | | | | | |
| Regular | 2,864,481 | 78,120 | 0 | 2,361 | 2,944,962 |
| Special | 799,951 | 275,464 | 0 | 0 | 1,075,415 |
| Vocational | 94,660 | 0 | 0 | 0 | 94,660 |
| Other | 1,026,942 | 0 | 0 | 0 | 1,026,942 |
| Support Services: | | | | | |
| Pupils | 308,745 | 6,813 | 0 | 0 | 315,558 |
| Instructional Staff | 67,210 | 56,068 | 0 | 0 | 123,278 |
| Board of Education | 24,020 | 0 | 0 | 0 | 24,020 |
| Administration | 698,635 | 68,188 | 0 | 0 | 766,823 |
| Fiscal | 301,829 | 8,588 | 7,070 | 2,587 | 320,074 |
| Operation and Maintenance of Plant | 516,810 | 274 | 0 | 49,302 | 566,386 |
| Pupil Transportation | 552,366 | 781 | 0 | 0 | 553,147 |
| Central | 7 | 1,065 | 0 | 0 | 1,072 |
| Operation of Non-Instructional Services | 186 | 0 | 0 | 0 | 186 |
| Extracurricular Activities | 120,536 | 79,346 | 0 | 0 | 199,882 |
| Capital Outlay | 0 | 0 | 0 | 40,560 | 40,560 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 3,460,000 | 0 | 3,460,000 |
| Interest and Fiscal Charges | 0 | 0 | 153,901 | 0 | 153,901 |
| Total Cash Disbursements | 7,376,378 | 574,707 | 3,620,971 | 94,810 | 11,666,866 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 994,572 | 12,328 | (3,240,660) | 43,141 | (2,190,619) |
| Other Financing Sources (Uses) | | | | | |
| Proceeds of Sale of Bonds | 0 | 0 | 3,290,000 | 0 | 3,290,000 |
| Other Financing Sources | 0 | 0 | 157,484 | 0 | 157,484 |
| Other Financing Uses | 0 | 0 | (143,020) | 0 | (143,020) |
| Advances In | 10,000 | 14,900 | 0 | 0 | 24,900 |
| Advances Out | (27,200) | 0 | 0 | 0 | (27,200) |
| Operating Transfers In | 153,086 | 0 | 0 | 31,622 | 184,708 |
| Operating Transfers Out | (181,951) | (2,757) | 0 | 0 | (184,708) |
| Total Other Financing Sources (Uses) | (46,065) | 12,143 | 3,304,464 | 31,622 | 3,302,164 |
| Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses | | | | | |
| | 948,507 | 24,471 | 63,804 | 74,763 | 1,111,545 |
| Fund Cash Balances, July 1, 2003 | 2,712,142 | 59,808 | 518,319 | 14,330 | 3,304,599 |
| Fund Cash Balances, June 30, 2004 | \$ 3,660,649 | \$ 84,279 | \$ 582,123 | \$ 89,093 | \$ 4,416,144 |
| Reserves for Encumbrances | \$ 288,020 | \$ 25,739 | \$ 0 | \$ 41,576 | \$ 355,335 |

The notes to the financial statements are an integral part of this statement.

EAST KNOX LOCAL SCHOOL DISTRICT

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2004**

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Total (Memorandum Only)</u> |
|--|----------------------------------|--------------------------------|--|
| | <u>Enterprise</u> | <u>Agency</u> | |
| OPERATING CASH RECEIPTS | | | |
| Sales | \$ 213,954 | \$ 72,199 | \$ 286,153 |
| Other Operating Revenues | 43,051 | 1,908 | 44,959 |
| Total Operating Cash Receipts | <u>257,005</u> | <u>74,107</u> | <u>331,112</u> |
| OPERATING CASH DISBURSEMENTS | | | |
| Salaries | 90,364 | 0 | 90,364 |
| Fringe Benefits | 51,831 | 0 | 51,831 |
| Purchased Services | 6,648 | 0 | 6,648 |
| Materials and Supplies | 170,822 | 73,473 | 244,295 |
| Capital Outlay | 350 | 0 | 350 |
| Total Operating Cash Disbursements | <u>320,015</u> | <u>73,473</u> | <u>393,488</u> |
| Operating Income (Loss) | <u>(63,010)</u> | <u>634</u> | <u>(62,376)</u> |
| NON OPERATING CASH RECEIPTS/(DISBURSEMENTS) | | | |
| Operating Grants | 90,066 | 0 | 90,066 |
| Interest | 1,132 | 712 | 1,844 |
| Other Non-Operating Revenue | 3,821 | 0 | 3,821 |
| Total Non Operating Cash Receipts/(Disbursements) | <u>95,019</u> | <u>712</u> | <u>95,731</u> |
| Advance in | 0 | 2,300 | 2,300 |
| Net Cash Receipts Over/(Under) Cash Disbursements | 32,009 | 3,646 | 35,655 |
| Fund Cash Balances, July 1, 2003 | <u>108,420</u> | <u>59,558</u> | <u>167,978</u> |
| Fund Cash Balances, June 30, 2004 | <u>\$ 140,429</u> | <u>\$ 63,204</u> | <u>\$ 203,633</u> |
| Reserves for encumbrances | <u>\$ 10,149</u> | <u>\$ 10,679</u> | <u>\$ 20,828</u> |

The notes to the financial statements are an integral part of this statement.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The East Knox Local School District (the District) is a body politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a locally-elected five-member Board for of government and provides educational services as mandated by state and/or federal agencies to residents of the District

Average daily membership on, or as of, October 1, 2003, was 1,182. The District employs 76 certificated and 52 non-certificated employees.

Management believes the financial statements included in the report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

The District participates in a jointly governed organization and an insurance purchasing pool. These organizations are presented in Note 9 of the financial statements. These organizations are:

Jointly Governed Organization:

Tri-Rivers Education Computer Association

Public Entity Risk Pool:

Ohio School Boards Association Workers' Compensation Group Rating Program

B. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District has chosen to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

C. Cash and Investments

State Treasury Asset Reserve of Ohio (STAROhio) and cash deposits are reported at cost.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

Governmental Funds

The **General Fund** is used to account for all financial resources except those required to be accounted for in another fund.

The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditure for specified purposes.

The **Debt Service Fund** is used to account for the accumulation of resources for the payment of general long-term obligation principal, interest, and related costs.

The **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 or non-expendable trust funds.

Proprietary 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 of the governing body is that the costs, including depreciation where applicable, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

The **Agency Funds** are used to account for assets held by the District, an agent for individuals, private organizations, other governmental units, and/or other funds.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the Knox County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the period July 1 to June 30 of the following year.

2. Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. Budgeted receipts in Note 3 do not include July 1, 2004 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund level and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within a fund may be modified during the year by the treasurer. Several supplemental appropriation resolutions were legally enacted by the Board of Education during the year. The budget figures, as shown in Note 3 represent the final appropriation amounts including all amendments and modifications.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective funds from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as site improvement disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

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 District.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2004, the District changed from the accrual basis to the cash basis of accounting. The financial statements for 2003 have been retroactively restated for the change, which effectively eliminated balance sheet accruals. Fund balances have been adjusted for the effect of the retroactive application of the new method.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

2. CHANGE IN ACCOUNTING PRINCIPLE (Continued)

| Fund Types | Reported Balances at 6/30/2003 | Change in Reporting Basis Adjustments | Restated Cash Balance 7/1/2003 |
|-----------------------|--------------------------------------|---|--------------------------------------|
| General Fund | \$ 2,697,448 | \$ 14,694 | \$ 2,712,142.00 |
| Special Revenue Fund | 55,842 | 3,966 | 59,808 |
| Debt Service Fund | 564,347 | (46,028) | 518,319 |
| Capital Projects Fund | 48,530 | (34,200) | 14,330 |
| Enterprise Fund | 110,690 | (2,270) | 108,420 |
| Agency | 0 | 59,558 | 59,558 |
| Total | \$ 3,476,857 | \$ (4,280) | \$ 3,472,577 |

3. POOLED CASH 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 had 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 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.

Protection to 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.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

3. POOLED CASH AND INVESTMENTS (Continued)

Interim monies can 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 or 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 must exceed the principal value of the agreement by at least two percent and be marked to market daily, with the term of the agreement not exceeding 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 Bankers' 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 moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating 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 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 investment may be made only upon delivery of the securities representing the investment to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

3. POOLED CASH AND INVESTMENTS (Continued)

Deposits - At year-end, the carrying amount of the District's deposits was \$4,220,733 and the bank balance was 4,384,136, of which \$400,000 was covered by federal depository insurance, and the remainder is collateralized by the financial institution's public entity deposit pool.

Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the 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 District's name.

Statutory provisions require that all securities acquired by the District be held by the District treasurer or deposited with a qualified trustee. Star Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

| | <u>Carrying Value</u> | <u>Market Value</u> |
|--|---------------------------|-------------------------|
| Investment in State Treasurer's Investment Pool | <u>\$ 399,044</u> | <u>\$ 399,044</u> |

Restricted Cash – Included in the June 30, 2004 General Fund cash balance is restricted cash and cash equivalents of \$41,846 set aside for the Textbook Reserve.

Unreported Cash – Not included in the June 30, 2004 Debt Service Fund cash balance is \$35,000 restricted cash and cash equivalents held with fiscal agent for the purpose of paying matured bonds that have not yet been redeemed.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

4. BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2004 as follows:

2004 Budgeted vs. Actual Receipts

| | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|-------------|
| General | \$ 8,561,540 | \$ 8,534,036 | \$ (27,504) |
| Special Revenue | 703,574 | 601,935 | (101,639) |
| Debt Service | 3,750,164 | 3,827,795 | 77,631 |
| Capital Projects | 170,422 | 169,573 | (849) |
| Enterprise | 361,700 | 352,024 | (9,676) |
| Fiduciary | 85,215 | 77,119 | (8,096) |
| Total | \$ 13,632,615 | \$ 13,562,482 | \$ (70,133) |

2004 Budgeted vs. Actual Expenditures

| | Appropriation Authority | Actual Expenditures | Variance |
|------------------|----------------------------|------------------------|--------------|
| General | \$ 8,689,080 | \$ 7,873,549 | \$ 815,531 |
| Special Revenue | 750,209 | 603,203 | 147,006 |
| Debt Service | 3,764,000 | 3,763,991 | 9 |
| Capital Projects | 173,130 | 126,386 | 46,744 |
| Enterprise | 444,521 | 330,164 | 114,357 |
| Fiduciary | 184,558 | 84,152 | 100,406 |
| Total | \$ 14,005,498 | \$ 12,781,445 | \$ 1,224,053 |

5. CAPITALIZED LEASES – LESSEE DISCLOSURE

In prior fiscal years, the School District entered into capitalized leases for copiers, computers and modular classrooms.

The leases met 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 are reflected as operation and maintenance of plant and capital outlay expenditures in the financial statements.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

5. CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)

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, 2004:

| <u>Fiscal Year Ending June 30,</u> | <u>General Long-Term Obligation</u> |
|---|-------------------------------------|
| 2005 | \$ 55,430 |
| 2006 | 40,560 |
| 2007 | <u>40,560</u> |
| Total minimum lease payments | 136,550 |
| Less: Amount representing interest | <u>(9,032)</u> |
| Present value of minimum lease payments | <u>\$ 127,518</u> |

6. GENERAL LONG TERM OBLIGATIONS

| | <u>Outstanding June 30, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Outstanding June 30, 2004</u> |
|------------------------------------|--------------------------------------|---------------------|---------------------|--------------------------------------|
| General Obligation Bonds | | | | |
| Series 1993 5.4%-6.5% \$4,400,000 | \$ 3,460,000 | \$ 0 | \$ 3,460,000 | 0 |
| Series 2004 1.5%-4.42% \$3,290,000 | 0 | 3,290,000 | 0 | 3,290,000 |
| Capital Leases | <u>195,620</u> | <u>0</u> | <u>68,102</u> | <u>127,518</u> |
| | <u>\$ 3,655,620</u> | <u>\$ 3,290,000</u> | <u>\$ 3,528,102</u> | <u>\$ 3,417,518</u> |

Outstanding general obligation bonds consist of school building construction. General obligation bonds are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the District. On October 15, 2003, the District issued \$3,290,000 refunding in general obligation bonds consisting of serial bonds and capital appreciation bonds. The proceeds of the bonds were used to defease bonds totaling \$3,290,000 of the District's general obligations bonds, Series 1993. This refunding was done to achieve interest cost savings and resulted in an economic gain of \$314,180.

A. Serial Bonds

The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5% TO 4.2%.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

6. GENERAL LONG TERM OBLIGATIONS (Continued)

B. Capital Appreciation Bonds

The capital appreciation bonds mature December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value.

The annual requirement to amortize all debt outstanding as of June 30, 2004, including interest payments of \$1,221,340 is as follows:

| Year Ending June 30, | School Improvement Bond |
|------------------------------|-------------------------------|
| 2005 | \$ 344,623 |
| 2006 | 323,677 |
| 2007 | 319,078 |
| 2008 | 309,477 |
| 2009 | 309,415 |
| 2010-2014 | 1,489,600 |
| 2015-2019 | 1,415,470 |
| Total Principal and Interest | 4,511,340 |
| Less Interest | (1,221,340) |
| Total Principal | \$ 3,290,000 |

7. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Knox, Licking and Coshocton County Auditors are responsible for assessing and remitting these property taxes to the District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, in Knox, Locking, and Coshocton Counties, real property taxes are billed semi-annually, one year in arrears.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

8. DEFINED BENEFIT PENSION PLANS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The East Knox Local School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer public employee retirement defined benefit pension plan. SERS provides retirement, annual cost-of-living adjustments, disability, survivor, and health care benefits. SERS issued a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement Systems, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10% of their annual covered salary and East Knox Local School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and East Knox Local School District are established and may be amended by the SERS Board of Trustees. The School District's contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$144,998, \$83,840, and, \$55,996, respectively; 56% has been contributed for fiscal year 004 and 100 percent has been contributed for the fiscal years 2003 and 2002.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The East Knox Local School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple-employer public employee retirement defined benefit pension plan operated by the State of Ohio. STRS provides retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 10% of their annual covered salary and East Knox Local School District is required to contribute an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirement of plan members and East Knox Local School District are established and may be amended by the STRS Board of Trustees. The School District's contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$441,908, \$393,512, and \$262,813, respectively; 55% has been contributed for fiscal year 2004 and 100 percent has been contributed for the fiscal years 2003 and 2002.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

9. POSTEMPLOYMENT BENEFITS

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year, ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$50,853.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS had approximately 62,000 participants currently receiving health care benefits.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS)

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipient and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

The ORC grants authority to STRS to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate; currently 14% of covered payroll.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

9. POSTEMPLOYMENT BENEFITS (Continued)

The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

10. JOINTLY GOVERNED ORGANIZATIONS AND PUBLIC ENTITY RISK POOL

A. Jointly governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Associations (TRECA), which is a computer consortium. TRECA is an 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 schools 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 \$66,041 to TRECA during fiscal year 2004 for services.

B. Insurance Purchasing 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.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

12. 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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

Effective April 10, 2001, Senate Bill 345, eliminated the requirement that the School Districts' establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the act.

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

| | Textbook Instructional Materials Reserve | Capital Improvement Reserve | Total |
|---|---|-----------------------------------|------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Set-Aside Reserve Balance as of June 30, 2003 | \$ 54,699 | \$ 0 | \$ 54,699 |
| Current Year Set-Aside Requirement | 150,180 | 150,180 | 300,360 |
| Current Year Offsets | 0 | (137,434) | (137,434) |
| Qualifying Disbursements | <u>(163,033)</u> | <u>(93,756)</u> | <u>(256,789)</u> |
| Total | <u>\$ 41,846</u> | <u>\$ (81,010)</u> | <u>\$ (39,164)</u> |
| Set-aside Balance Carried Forward FY 2005 | <u>\$ 41,846</u> | <u>\$ 0</u> | <u>\$ 41,846</u> |
| Amount to Restrict for Set-Asides | | | <u>\$ 41,846</u> |
| Total Restricted Assets | | | <u>\$ 41,846</u> |

The School District had qualifying disbursements during the year that reduced the capital improvements reserve set-aside below zero. This extra amount may not be used to reduce the set-aside requirement of future years for the capital improvement reserve. Negatives are therefore not presented as being carried forward to the next fiscal year for the other set-asides. The total reserve balance for the set-asides at the end of the fiscal year was \$41,846.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

13. RISK MANAGEMENT

A. Property and Liability

The 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. For fiscal year 2004, the School District contracted the Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$21,420,980 limit.

The District has professional liability through the Ohio School Insurance Program with Selective Insurance Company of South Carolina. Professional liability protection was set at \$2,000,000 per single occurrence limit and \$4,000,000 aggregate with a \$1,000 deductible.

Vehicles are covered by the Ohio School Plan and hold a \$250 deductible for comprehensive and \$500 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.

B. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 2, 2004

The Board of Education
East Knox Local School District
Howard, Ohio 43028

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of East Knox Local School District as of and for the year ended June 30, 2004, and have issued our report thereon dated December 2, 2004, with an adverse opinion on the District's accompanying financial statements because they do not present fairly the financial position, results of operations, and cash flows, where applicable, in accordance with accounting principles generally accepted in the United States of America. We have 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether East Knox Local School 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 instances of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as noted item 2004-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Knox Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 of 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 general purpose 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.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

December 2, 2004

The Board of Education
East Knox Local School District
Howard, Ohio 43028

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of East Knox Local School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. East Knox Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of East Knox Local School District's management. Our responsibility is to express an opinion on East Knox Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circulars A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Knox Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on East Knox Local School District's compliance with those requirements.

In our opinion, East Knox Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of East Knox Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered East Knox Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | Pass-Through Entity Number | CFDA Number | Receipts | Expenditures | Non-Cash Expenditures |
|--|----------------------------------|----------------|------------|--------------|--------------------------|
| U.S. DEPARTMENT OF EDUCATION: | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | |
| Title I Grants to Local Educational Agencies | C1-S1-2003 | 84.010 | \$ 0 | \$ 600 | \$ 0 |
| | C1-S1-2004 | | 222,476 | 194,296 | 0 |
| Total Title I | | | 222,476 | 194,896 | 0 |
| Innovative Education Program Strategies | C2-S1-2002 | 84.298 | 0 | 1,295 | 0 |
| | C2-S1-2003 | | 0 | 4,469 | 0 |
| | C2-S1-2004 | | 1,085 | 2,872 | 0 |
| Total Innovative Education Program Strategies | | | 1,085 | 8,636 | 0 |
| Special Education Grants to States: | | | | | |
| Part B- IDEA | 6B-SF-2004 | 84.027 | 169,693 | 169,693 | 0 |
| Austin Grant | 6B-SF-2003 | | 15,000 | 16,216 | 0 |
| Total Special Education Grants to States | | | 184,693 | 185,909 | 0 |
| Safe & Drug Free Schools Grant | DR-S1-2003 | 84.186 | 0 | 3,768 | 0 |
| | DR-S1-2004 | | 3,223 | 0 | 0 |
| Total Safe & Drug Free Schools Grant | | | 3,223 | 3,768 | 0 |
| Title II-A Improving Teacher Quality | CR-S1-2004 | 84.367 | 40,109 | 39,928 | 0 |
| Title II-D Education Technology Grant | TJ-S1-2003 | 84.318 | 0 | 2,628 | 0 |
| | TJ-S1-2004 | | 6,341 | 6,341 | 0 |
| Total Title II | | | 6,341 | 8,969 | 0 |
| Assistive Technology | AT-S4-2002 | 84.352A | 7,608 | 7,608 | 0 |
| Total U. S. Department of Education | | | 465,535 | 449,714 | 0 |
| U.S. Department of Agriculture: | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | |
| <i>Nutrition Cluster:</i> | | | | | |
| Food Distribution Program | N/A | 10.550 | 0 | 0 | 32,856 |
| National School Lunch Program | LL-P4-2004 | 10.555 | 86,716 | 86,716 | 0 |
| Total US Department of Agriculture - Nutrition Cluster | | | 86,716 | 86,716 | 32,856 |
| Total Federal Financial Assistance | | | \$ 552,251 | \$ 536,430 | \$ 32,856 |

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the School District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

Note B - Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the School District had no significant food commodities inventory.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

| | | |
|----------------|--|---|
| (d) (1) (i) | Type of Financial Statement Opinion | Adverse |
| (d) (1) (ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d) (1) (iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d) (1) (iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d) (1) (iv) | Were there any reportable conditions reported for major programs which were not considered to be material? | No |
| (d) (1) (v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d) (1) (vi) | Are there any reportable findings under Section 510(a) of Circular A-133? | No |
| (d) (1) (vii) | Major Programs (list): Title I | Nutrition Cluster # 10.550 and #10.555, Title I CFDA # 84.010 |
| (d) (1) (viii) | Dollar Threshold: Type A/B Programs | Type A: >\$300,000 Type B: All others |
| (d) (1) (ix) | Low Risk Auditee? | No |

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)
JUNE 30, 2004**

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

NONCOMPLIANCE

| | |
|----------------|----------|
| Finding Number | 2004-001 |
|----------------|----------|

GAAP Reporting

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2004 the School District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

| | |
|------|--|
| NONE | |
|------|--|



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**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
FEBRUARY 10, 2005**