



**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY  
REGULAR AUDIT  
FOR THE YEAR ENDED DECEMBER 31, 2005**



**Auditor of State  
Betty Montgomery**



**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Eastern Knox County Joint Fire District  
Knox County, Ohio  
8599 Horn Road  
Gambier, Ohio 43022

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and the major fund of Eastern Knox County Joint Fire District, Knox County, Ohio (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The District processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective cash financial position of the governmental activities and the major fund of Eastern Knox County Joint Fire District, Knox County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the budgetary comparison for the general fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The District did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements

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

**Betty Montgomery**  
Auditor of State

September 1, 2006

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2005**

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|                                            | Governmental<br>Activities |
|--------------------------------------------|----------------------------|
| <b>Assets</b>                              |                            |
| Equity in Pooled Cash and Cash Equivalents | <u>\$485,573</u>           |
| <i>Total Assets</i>                        | <u><u>485,573</u></u>      |
| <br>                                       |                            |
| <b>Net Assets</b>                          |                            |
| Unrestricted                               | <u>485,573</u>             |
| <i>Total Net Assets</i>                    | <u><u>\$485,573</u></u>    |

See accompanying notes to the basic financial statements

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                             | Program<br>Cash Receipts            | Net (Disbursements) Receipts<br>and Changes in Net Assets |
|-------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------|
| Cash<br>Disbursements                                       | Capital Grants<br>and Contributions | Governmental<br>Activities                                |
| <b>Governmental Activities</b>                              |                                     |                                                           |
| Public Safety                                               | \$835,593                           | (\$792,153)                                               |
| Capital Outlay                                              | 304,112                             | (304,112)                                                 |
| Debt Service:                                               |                                     | 0                                                         |
| Principal                                                   | 111,199                             | (111,199)                                                 |
| Interest                                                    | 2,535                               | (2,535)                                                   |
| <i>Total Governmental Activities</i>                        | \$1,253,439                         | (1,209,999)                                               |
| <br>                                                        |                                     |                                                           |
| <b>General Receipts</b>                                     |                                     |                                                           |
| Property Taxes                                              |                                     | 923,209                                                   |
| Grants and Entitlements not Restricted to Specific Programs |                                     | 111,816                                                   |
| Earnings on Investments                                     |                                     | 18,359                                                    |
| Miscellaneous                                               |                                     | 27,751                                                    |
| <i>Total General Receipts</i>                               |                                     | 1,081,135                                                 |
| <br>                                                        |                                     |                                                           |
| Change in Net Assets                                        |                                     | (128,864)                                                 |
| <br>                                                        |                                     |                                                           |
| <i>Net Assets Beginning of Year</i>                         |                                     | 614,437                                                   |
| <br>                                                        |                                     |                                                           |
| <i>Net Assets End of Year</i>                               |                                     | \$485,573                                                 |

See accompanying notes to the basic financial statements

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE  
GOVERNMENTAL FUND  
DECEMBER 31, 2005**

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|                                            | <u>GENERAL</u>          |
|--------------------------------------------|-------------------------|
| <b>Assets</b>                              |                         |
| Equity in Pooled Cash and Cash Equivalents | <u>\$485,573</u>        |
| <i>Total Assets</i>                        | <u><u>\$485,573</u></u> |
| <b>Fund Balances</b>                       |                         |
| Reserved:                                  |                         |
| Reserved for Encumbrances                  | \$112,145               |
| Unreserved:                                |                         |
| Undesignated (Deficit), Reported in:       |                         |
| General Fund                               | <u>\$373,428</u>        |
| <i>Total Balance</i>                       | <u><u>\$485,573</u></u> |

See accompanying notes to the basic financial statements

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN-CASH BASIS  
FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                        | GENERAL   |
|----------------------------------------|-----------|
| <b>Receipts</b>                        |           |
| Property and Other Local Taxes         | \$923,209 |
| Intergovernmental                      | 155,256   |
| Earnings on Investments                | 18,359    |
| Miscellaneous                          | 18,643    |
| Total Receipts                         | 1,115,467 |
| <b>Disbursements</b>                   |           |
| Current:                               |           |
| Public Safety                          | 835,593   |
| Capital Outlay                         | 304,112   |
| Debt Service:                          |           |
| Principal Retirement                   | 111,199   |
| Interest and Fiscal Charges            | 2,535     |
| Total Disbursements                    | 1,253,439 |
| Excess of Receipts Under Disbursements | (137,972) |
| Other Financing Sources (Uses)         |           |
| Other Financing Sources                | 9,108     |
| Net Change in Fund Balance             | (128,864) |
| Fund Balance Beginning of Year         | 614,437   |
| Fund Balance End of Year               | \$485,573 |

See accompanying notes to the basic financial statements

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                      | Budgeted Amounts |                  | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------------------------------|------------------|------------------|------------------|---------------------------------------------------------|
|                                                      | Original         | Final            |                  |                                                         |
| <b>Receipts</b>                                      |                  |                  |                  |                                                         |
| Property and Other Local Taxes                       | \$904,122        | \$904,122        | \$923,209        | \$19,087                                                |
| Intergovernmental                                    | 199,297          | 199,297          | 155,256          | (44,041)                                                |
| Earnings on Investments                              | 6,000            | 6,000            | 18,359           | 12,359                                                  |
| Miscellaneous                                        | 1,500            | 16,500           | 18,643           | 2,143                                                   |
| <i>Total receipts</i>                                | <u>1,110,919</u> | <u>1,125,919</u> | <u>1,115,467</u> | <u>(10,452)</u>                                         |
| <b>Disbursements</b>                                 |                  |                  |                  |                                                         |
| Current:                                             |                  |                  |                  |                                                         |
| Public Safety                                        | 1,111,158        | 1,166,202        | 947,738          | 218,464                                                 |
| Capital Outlay                                       | 334,897          | 208,699          | 304,112          | 79,048                                                  |
| Debt Service:                                        |                  |                  |                  |                                                         |
| Principal Retirement                                 | 277,800          | 361,199          | 111,199          | 15,969                                                  |
| Interest and Fiscal Charges                          | 4,001            | 4,001            | 2,535            | 1,466                                                   |
| <i>Total Disbursements</i>                           | <u>1,727,856</u> | <u>1,740,101</u> | <u>1,365,584</u> | <u>314,947</u>                                          |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(616,937)</u> | <u>(614,182)</u> | <u>(250,117)</u> | <u>304,495</u>                                          |
| <b>Other Financing Sources (Uses)</b>                |                  |                  |                  |                                                         |
| Other Financing Sources                              | 2,200            | 2,200            | 9,108            | 6,908                                                   |
| Other Financing Uses                                 | (1,000)          | (1,000)          | 0                | 1,000                                                   |
| <i>Total Other Financing Sources</i>                 | <u>1,200</u>     | <u>1,200</u>     | <u>9,108</u>     | <u>7,908</u>                                            |
| <i>Net Change in Fund Balance</i>                    | <u>(615,737)</u> | <u>(612,982)</u> | <u>(241,009)</u> | <u>312,403</u>                                          |
| <i>Fund Balance Beginning of Year</i>                | <u>614,437</u>   | <u>614,437</u>   | <u>614,437</u>   | <u>0</u>                                                |
| Prior Year Encumbrances Appropriated                 | <u>1,300</u>     | <u>1,300</u>     | <u>1,300</u>     | <u>0</u>                                                |
| <i>Fund Balance End of Year</i>                      | <u>\$0</u>       | <u>\$2,755</u>   | <u>\$374,728</u> | <u>\$312,403</u>                                        |

See accompanying notes to the basic financial statements

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**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**Note 1 – Reporting Entity**

The Eastern Knox County Joint Fire District, Knox County, Ohio (the District) is a body politic and corporate established in 2001 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by a publicly appointed nine-member Board of Trustees. The District also has an appointed Fiscal Officer.

The District's management believes these financial statements present all activities for which the District is financially accountable.

The reporting entity is comprised of the primary government.

**A. Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. The District provides fire protection for Brown, Jefferson, Union, Howard, Butler, and Harrison Townships and the villages of Danville and Brinkhaven.

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2.C, the financial statements are presented on cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. This statement includes the financial activities of the primary government. The statement distinguishes between those activities of the District that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The District has no business-type activities.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

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

**Fund Financial Statements**

During the year, the District segregates transactions related to certain District functions or activities in one operating fund. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. The District's only fund is presented in a separate column.

**B. Fund Accounting**

The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The District maintains one operating fund and its categorized as governmental.

**Governmental Funds**

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's only major governmental fund is the General Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

**C. Basis of Accounting**

The District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the District are described in the appropriate section in this note.

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

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the District may appropriate.

The appropriations ordinance is the District's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the District. The legal level of control has been established at the fund, department, and object level for all funds

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

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

**E. Cash and Investments**

To improve cash management, cash received by the District is pooled and invested. Individual fund integrity is maintained through District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, the District invested in nonnegotiable certificates of deposit, a public money market fund, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost. The District's public money market fund was closed on June 14, 2005 and the Jumbo CD was closed on September 30, 2005. All investments were moved to STAR Ohio.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to District funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$18,359.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

**F. Restricted Assets**

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. None of the District's assets are restricted.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**H. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**I. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**J. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

**K. Fund Balance Reserves**

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

**Note 3 – Change in Basis of Accounting**

In 2004, the District reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. In 2005 the District has revised its financial presentation comparable to the requirements of *Governmental Accounting Standard No. 34, Basic Financial Statements – and Management Discussion and Analysis – for state and local governments*.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 3 – Change in Basis of Accounting** (continued)

For 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “*Deposits and Investment Risk Disclosure*”. GASB statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the District’s financial statements for fiscal year 2005.

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the cash basis is (are) outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (cash basis)). The encumbrances outstanding at year end (budgetary basis) amounted to \$112,145.

**Note 5 – Deposits and Investments**

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

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the 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 Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 5 – Deposits and Investments** (continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the District by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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.

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 District or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the bank balance was \$46,722 and was covered by federal depository insurance.

**Deposits**

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

**Investments**

As of December 31, 2005, the District had the following investments:

|           |                       |                 |
|-----------|-----------------------|-----------------|
|           | <u>Carrying Value</u> | <u>Maturity</u> |
| STAR Ohio | 435,829.83            | Average         |

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 5 – Deposits and Investments** (continued)

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy addresses interest rate risk by requiring that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

**Note 6 – Property Taxes**

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

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

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

The full tax rate for all District operations for the year ended December 31, 2005, was \$5.00 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

|                               |                      |
|-------------------------------|----------------------|
| Real Property                 |                      |
| Residential                   | \$161,688,750        |
| Agriculture                   | 42,224,470           |
| Commercial/Industrial/Mineral | 8,451,900            |
| Public Utility Property       | 12,263,773           |
| Total Assessed Value          | <u>\$224,628,893</u> |

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 7 – Risk Management**

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. During 2005 the District contracted with the Volunteer Firemen Insurance Services, Inc. of Ohio for the following insurance coverage:

|                      |             |                |
|----------------------|-------------|----------------|
| General Liability    | \$6,000,000 | Per Occurrence |
| Automobile Liability | 6,000,000   | Per Occurrence |
| Management Liability | 6,000,000   | Per Occurrence |
| Property             | 1,165,000   | Total Coverage |
| Contents             | 210,349     | Total coverage |

There were no significant reductions in coverage from prior years and claims have not exceeded insurance coverage in any of the past three years. The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

The District provides health insurance for its full time employees through United Health Care.

**Note 8 – Defined Benefit Pension Plan**

**A. Ohio Public Employees Retirement System**

The District participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The District's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the District's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 8 – Defined Benefit Pension Plan** (continued)

**A. Ohio Public Employees Retirement System** (continued)

The District's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$15,650, \$9,766, and \$4,868 respectively. The full amount has been contributed for 2005, 2004 and 2003.

**B. Ohio Police and Fire Pension Fund**

The District contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the District is required to contribute 16.25 percent for firefighters. Contributions are authorized by State statute. The District's contributions to the Fund for firefighters was \$35,374 for the year ended December 31, 2005, and \$13,274 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004.

**Note 9 - Postemployment Benefits**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 9 - Postemployment Benefits** (continued)

A. Ohio Public Employees Retirement System (continued)

The number of active contributing participants in the traditional and combined plans was 379,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$210,421. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total firefighter contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2002, all retirees and survivors have monthly health care contributions.

The District's actual contributions for 2005 that were used to fund postemployment benefits was \$16,870.40 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

**EASTERN KNOX COUNTY JOINT FIRE DISTRICT  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 10 - Notes Payable**

A summary of the note transactions for the year ended December 31, 2005, follows:

|                       | <u>Interest<br/>Rate</u> | <u>Balance<br/>December 31, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>December 31, 2005</u> |
|-----------------------|--------------------------|--------------------------------------|------------------|-------------------|--------------------------------------|
| <u>Ambulance Note</u> | 4%                       | \$ 111,199                           | \$ 0             | \$ 111,199        | \$ 0                                 |

**Note 11 – Subsequent Events**

The District borrowed \$31,915 from First Knox National Bank on February 9, 2006 to purchase a 2006 Ford 350 4x4 at 4.5% interest. The loan will be repaid in 5 payments of \$7,270. The first payment is due on February 9, 2007.

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## Auditor of State Betty Montgomery

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

Eastern Knox County Joint Fire District  
Knox County  
8599 Horn Road  
Gambier, Ohio 43022

To the Board of Trustees:

We have audited the financial statements of the Eastern Knox County Joint Fire District Knox County, Ohio (the District) as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 1, 2006, wherein we noted the District has revised its financial presentation comparable to the requirements of *Governmental Accounting Standard No. 34, Basic Financial Statements – and Management Discussion and Analysis – for state and local governments*. We also noted that the District uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the District because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

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

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

September 1, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**EASTERN KNOX COUNTY JOINT FIRE 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  
OCTOBER 19, 2006**