

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2011***

JESSICA BUSENBURG, TREASURER



Dave Yost • Auditor of State

Board of Education
East Knox Local School District
23201 Coshocton Road
Howard, OH 43028-0068

We have reviewed the *Independent Accountants' Report* of the East Knox Local School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2010 through June 30, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 21, 2012

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

TABLE OF CONTENTS

Independent Accountants' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets - Cash Basis.....	10
Statement of Activities - Cash Basis	11
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds.....	12
Statement of Cash Receipts, Disbursements and Changes in Cash-Basis Fund Balances - Governmental Funds.....	13
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budget Basis - General Fund	14
Statement of Fiduciary Net Assets - Cash Basis - Fiduciary Fund.....	15
Notes to the Basic Financial Statements.....	16 - 32
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	33
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	34 - 35
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	36 - 37
Schedule of Findings and Responses <i>OMB Circular A-133 §.505</i>	38 - 40
Status of Prior Audit Findings <i>OMB Circular A-133 §.505</i>	41

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Accountants' Report

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2011, which collectively comprise East Knox Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of East Knox Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of June 30, 2011, and the respective changes in cash financial position and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, during fiscal year ended June 30, 2011, the East Knox Local School District adopted the provisions of Governmental Accounting Standards Board State No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Independent Accountants' Report
East Knox Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the 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 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the East Knox Local School District's basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* provides additional analysis and is not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
December 21, 2011

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

This discussion and analysis of the East Knox Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

General revenues accounted for \$12,585,418 in revenue or 82.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted \$2,634,350 or 17.3% of total revenues of \$15,219,768.

Total program expenses were \$15,306,646.

In total, net assets decreased \$86,878.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's cash basis of accounting. This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the East Knox Local School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2011, within the limitations of cash basis accounting. The statement of net assets- cash basis presents the cash balances and investments of the governmental activities of the District at fiscal year end. The statement of activities-cash basis compares cash disbursements with program receipts for each District program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well, such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

- *Governmental Activities*- Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds-not the District as a whole. The District establishes separate funds to better manage its many activities and to help demonstrate that money is restricted as to how it may be used to ensure it being spent for the intended purpose. The funds of the District are categorized as governmental funds and fiduciary funds.

Governmental Funds- The District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The District's major governmental funds are the General, Debt Service, and Capital Projects Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Fiduciary Funds- The District is the trustee, or fiduciary, for various student managed activity programs. The cash balances of the District's fiduciary activities are reported in separate statement of fiduciary net assets-cash basis. These balances are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The School District as a Whole

Table 1 provides a summary of the District's net assets for 2011 compared to 2010 on a cash basis of accounting.

(Table 1)
Net Assets

	Governmental Activities	
	2011	2010
Assets		
Cash and Cash Equivalents	\$ 2,280,278	\$ 2,367,156
Total Assets	\$ 2,280,278	\$2,367,156
Net Assets		
Restricted for:		
Capital Projects	\$ 499,991	296,096
Debt Service	512,060	511,837
Other Purposes	98,098	77,994
Unrestricted	1,170,129	1,481,229
Total Net Assets	\$2,280,278	\$2,367,156

Net assets of governmental activities decreased \$86,878 during fiscal year 2011. Unrestricted net assets decreased by \$311,100 due to disbursements exceeding receipts for the general fund related activities in 2011.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Table 2 shows the changes in net assets for fiscal year 2011 compared to 2010:

(Table 2)
Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$844,980	\$882,361
Operating Grants and Contributions	1,789,370	1,451,396
Capital Grants and Contributions	0	90,980
Total Program Receipts	<u>2,634,350</u>	<u>2,424,737</u>
General Receipts:		
Property and Other Local Taxes	5,915,293	5,896,412
Grants and Entitlements Not Restricted to Specific Programs	4,988,652	5,032,360
Interest	32,172	67,661
Proceeds Note/Bond Sales	1,605,000	2,000,000
Premium on Debt Issue	17,478	16,360
Miscellaneous	26,823	40,966
Total General Receipts	<u>12,585,418</u>	<u>13,053,759</u>
Total Receipts	<u>15,219,768</u>	<u>15,478,496</u>
Disbursements:		
Instruction	7,230,217	7,911,102
Support Services	4,421,611	4,334,691
Food Service	538,013	509,479
Extracurricular Activities	262,053	346,344
Capital Outlay	2,877	289,811
Debt Service	2,851,875	3,305,806
Total Disbursements	<u>15,306,646</u>	<u>16,697,233</u>
Increase (Decrease) in Net Assets	(86,878)	(1,218,737)
Net Assets, Beginning of Year	2,367,156	3,585,893
Net Assets, End of Year	<u>\$2,280,278</u>	<u>\$2,367,156</u>

Total receipts decreased in fiscal year 2011. Proceeds from note sales decreased by \$395,000 due to a one year note continuing to be paid down. Interest earnings decreased by \$35,489. Grants and entitlements not restricted for specific programs decreased due to the decrease in state foundation funding. Operating grants increased by \$337,974 due to the receipt of a five year 21st Century federal grant.

Total disbursements decreased in fiscal year 2011 substantially. The most dramatic changes can be attributed to capital outlay and general fund expenditure reductions. Capital outlay expenditures decreased by \$286,934. The middle school building and bus garage were built in 2008 and the remainder of the majority of the contracts was paid in fiscal year 2009 and 2010.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Governmental Activities

If you look at the statement of activities - cash basis, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services. The next three columns of the statement entitled program cash receipts identify amounts paid by people who are directly charged for the service and grants received by the District that must be used to provide a specific service. The net receipt (disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2011	Net Cost of Services 2010
Instruction	\$7,230,217	\$7,911,102	5,803,168	\$6,427,925
Support Services:				
Pupil and Instructional Staff	1,195,703	930,140	862,345	914,807
Board of Education, Administration and Fiscal	1,368,211	1,336,683	1,106,289	1,089,421
Operation of Maintenance and Plant	1,028,284	1,238,044	936,938	1,147,064
Pupil Transportation	829,413	829,824	829,413	829,824
Food Service	538,013	509,479	31,120	8,716
Extracurricular Activities	262,053	346,344	156,925	259,122
Capital Outlay	2,877	289,811	2,877	289,811
Debt Service	2,851,875	3,305,806	2,851,875	3,305,806
Total	\$15,306,646	\$16,697,233	\$12,580,950	\$14,272,496

The District Funds

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$15,219,768 and cash disbursements and other financing uses \$15,306,646.

The District's general fund cash balance decreased by \$322,489 due to a decrease in state revenue, a loss of open enrollment revenue, and the overall spending deficit trend from the past few years.

The District's debt service fund cash balance increased by \$223.

The District's capital project fund cash balance increased by \$203,895 due to tax receipts being higher than disbursements from the fund.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2011, the District amended its general fund budget several times to reflect changing circumstances. The differences between the budgeted and actual were not significant.

Debt

At June 30, 2011 the District had \$11,364,986 in bonds outstanding with \$240,000 due within one year. The District also had \$368,414 in tax anticipation notes outstanding with \$119,934 due within one year. The District also had \$1,605,000 in bond anticipation notes outstanding at June 30, 2011. The bond anticipation notes are due February 15, 2012. See Notes 9 and 10 for more information about the District's debt.

Current Issues

The most significant issue for the district at this time is the general fund financial situation. There was deficit spending in 2007, 2008, 2009, 2010, 2011 and deficit spending is projected in 2012 as well. The board worked prudently for several years to build a cash reserve for situations like this, but the reserve is dwindling due to deficit spending for the past five years. The District approved over \$500,000 in budget cuts for 2010, an additional \$600,000 in 2011, and further reductions were made to start the 2011-2012 school year. Most of the cuts were personnel related.

Real estate taxes have shown steady increases until 2009, but have decreased from that point. The District has also experienced a decrease in tangible personal property tax receipts due to the tax being phased out. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. The District has seen a large amount of delinquencies in the past few years and high rate of foreclosures in the area.

The district has seen no increase in State revenue over the past few years. For fiscal years 2007, 2008, and 2009 the District is on the state guarantee. The District was again on the guarantee for 2010 and realized a 1% reduction in State funding due to the passing of HB153 of the biennial State budget. In 2011, the District received a 2% reduction in State funding. Only being guaranteed the same amount or even less each year although enrollment has increased has made it difficult for the District. This has largely contributed to the decrease in fund balance for fiscal years 2007, 2008, 2009, 2010, and 2011. The district anticipates an additional reduction in State funds of 7-8% for the 2011-2012 school year.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. In addition, the District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jessica Busenburg, Treasurer of East Knox Local School District, 23201 Coshocton Road, Howard, Ohio 43028.

East Knox Local School District

Statement of Net Assets - Cash Basis

June 30, 2011

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,280,278
<i>Total Assets</i>	<u>\$2,280,278</u>
Net Assets	
Restricted for:	
Capital Projects	\$499,991
Debt Service	512,060
Student Activities	24,423
Textbooks	2,733
Locally Funded Programs	5,156
Federally Funded Programs	41,606
Other Purposes	24,180
Unrestricted	<u>1,170,129</u>
<i>Total Net Assets</i>	<u>\$2,280,278</u>

See accompanying notes to the basic financial statements.

East Knox Local School District
Knox County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2011

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$3,821,424	\$490,806	\$121,072	(\$3,209,546)
Special	1,471,515	36,085	752,298	(683,132)
Vocational	215,748	-	26,788	(188,960)
Other	1,721,530	-	-	(1,721,530)
Support Services:				
Pupil	645,847	-	9,912	(635,935)
Instructional Staff	549,856	-	323,446	(226,410)
Board of Education	14,434	-	-	(14,434)
Administration	1,014,418	-	261,922	(752,496)
Fiscal	339,359	-	-	(339,359)
Operation and Maintenance of Plant	1,028,284	-	-	(1,028,284)
Pupil Transportation	829,413	-	-	(829,413)
Operation of Food Services	538,013	217,260	289,633	(31,120)
Extracurricular Activities	262,053	100,829	4,299	(156,925)
Capital Outlay	2,877	-	-	(2,877)
Debt Service:				
Principal	2,352,152	-	-	(2,352,152)
Interest and Fiscal Charges	495,710	-	-	(495,710)
Discount on Debt Issue:				
Issuance Costs	4,013	-	-	(4,013)
<i>Total Governmental Activities</i>	<u>\$ 15,306,646</u>	<u>\$ 844,980</u>	<u>\$ 1,789,370</u>	<u>\$ (12,672,296)</u>
General Receipts				
Property Taxes Levied for:				
				4,357,869
				976,582
				580,842
Grants and Entitlements not Restricted				
				4,988,652
				1,605,000
				17,478
				32,172
				26,823
<i>Total General Receipts</i>				<u>12,585,418</u>
				(86,878)
				<u>2,367,156</u>
				<u>\$2,280,278</u>

See accompanying notes to the basic financial statements.

East Knox Local School District
Statement of Cash Basis Assets and Fund Balances
 Governmental Funds
 June 30, 2011

	General	Debt Service Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,172,862	\$512,060	\$499,991	\$95,365	\$2,280,278
<i>Total Assets</i>	<u>\$1,172,862</u>	<u>\$512,060</u>	<u>\$499,991</u>	<u>\$95,365</u>	<u>\$2,280,278</u>
Fund Balances					
Restricted					
Debt Service	\$ -	\$ 512,060	\$ -	\$ -	\$ 512,060
Capital Improvement	-	-	499,991	-	499,991
Food Service Operations	-	-	-	24,180	24,180
Special Education	-	-	-	9,798	9,798
Targeted Academic Assistance	-	-	-	31,808	31,808
Textbook	2,733	-	-	-	2,733
Extracurricular	-	-	-	24,423	24,423
Other Purposes	-	-	-	5,156	5,156
Assigned					
Student and Staff Support	6,113	-	-	-	6,113
School Supplies	19,132	-	-	-	19,132
Unassigned	1,144,884	-	-	-	1,144,884
<i>Total Fund Balances</i>	<u>\$1,172,862</u>	<u>\$512,060</u>	<u>\$499,991</u>	<u>\$95,365</u>	<u>\$2,280,278</u>

See accompanying notes to the basic financial statements.

East Knox Local School District
Knox County, Ohio
Statement of Cash Receipts, Disbursements and Changes in Cash-Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Debt Service Fund	Capital Project Funds	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$ 4,357,869	\$ 976,582	\$ 580,842	\$ -	\$ 5,915,293
Intergovernmental	4,774,784	149,310	91,349	1,753,367	6,768,810
Interest	31,739	19	-	414	32,172
Tuition and Fees	493,975	-	-	-	493,975
Extracurricular Activities	25,203	-	-	72,222	97,425
Charges for Services	34,335	-	-	215,934	250,269
Gifts and Donations	-	-	-	9,211	9,211
Miscellaneous	20,835	-	-	8,800	29,635
<i>Total Receipts</i>	<u>9,738,740</u>	<u>1,125,911</u>	<u>672,191</u>	<u>2,059,948</u>	<u>13,596,790</u>
Disbursements					
Current:					
Instruction:					
Regular	3,662,789	-	76,039	82,096	3,820,924
Special	1,050,728	-	-	420,787	1,471,515
Vocational	214,777	-	971	-	215,748
Other	1,721,530	-	-	-	1,721,530
Support Services:					
Pupil	578,137	-	2,429	65,281	645,847
Instructional Staff	108,771	-	-	441,085	549,856
Board of Education	14,434	-	-	-	14,434
Administration	592,561	-	4,882	416,975	1,014,418
Fiscal	289,308	33,725	14,726	1,600	339,359
Operation and Maintenance of Plant	940,859	-	82,425	5,000	1,028,284
Pupil Transportation	706,922	-	118,035	4,456	829,413
Operation of Food Services	-	-	22,412	515,601	538,013
Extracurricular Activities	179,061	-	6,066	75,574	260,701
Capital Outlay	-	-	2,877	-	2,877
Debt Service:					
Principal Retirement	-	2,235,000	117,152	-	2,352,152
Interest and Fiscal Charges	-	475,428	20,282	-	495,710
<i>Total Disbursements</i>	<u>10,059,877</u>	<u>2,744,153</u>	<u>468,296</u>	<u>2,028,455</u>	<u>15,300,781</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(321,137)</u>	<u>(1,618,242)</u>	<u>203,895</u>	<u>31,493</u>	<u>(1,703,991)</u>
Other Financing Sources (Uses)					
Proceeds from the Issuance of Notes	-	1,605,000	-	-	1,605,000
Premium on Debt Issue	-	17,478	-	-	17,478
Discount on Debt Issue	-	(4,013)	-	-	(4,013)
Net Transfers Out	(1,352)	-	-	-	(1,352)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,352)</u>	<u>1,618,465</u>	<u>-</u>	<u>-</u>	<u>1,617,113</u>
<i>Net Change in Fund Balances</i>	<u>(322,489)</u>	<u>223</u>	<u>203,895</u>	<u>31,493</u>	<u>(86,878)</u>
<i>Fund Balances Beginning of Year, Restated</i>	<u>1,495,351</u>	<u>511,837</u>	<u>296,096</u>	<u>63,872</u>	<u>2,367,156</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,172,862</u>	<u>\$ 512,060</u>	<u>\$ 499,991</u>	<u>\$ 95,365</u>	<u>\$ 2,280,278</u>

See accompanying notes to the basic financial statements.

East Knox Local School District
Knox County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Receipts				
Property Taxes	\$4,282,900	\$4,357,869	\$4,357,869	\$ -
Intergovernmental	4,836,999	4,774,768	4,774,784	16
Interest	40,000	31,761	31,739	(22)
Tuition and Fees	585,700	494,131	493,975	(156)
Extracurricular Activities	-	16,035	16,035	-
Charges for Services	-	20,111	20,111	0
Gifts and Donations	-	-	-	-
Miscellaneous	1,100	12,656	11,356	(1,300)
<i>Total receipts</i>	<u>9,746,699</u>	<u>9,707,331</u>	<u>9,705,869</u>	<u>(1,462)</u>
Disbursements				
Current:				
Instruction:				
Regular	3,693,082	3,670,117	3,658,280	11,837
Special	1,050,274	1,072,297	1,050,173	22,124
Vocational	204,716	215,576	215,027	549
Other	1,821,341	1,721,530	1,721,530	-
Support Services:				
Pupil	566,958	587,614	580,762	6,852
Instructional Staff	114,640	109,262	108,771	491
Board of Education	15,662	14,434	14,434	-
Administration	615,780	616,234	613,381	2,853
Fiscal	283,481	292,059	290,833	1,226
Operation and Maintenance of Plant	984,284	956,346	948,979	7,367
Pupil Transportation	701,019	741,317	730,975	10,342
Extracurricular Activities	176,847	170,945	170,946	(1)
<i>Total Disbursements</i>	<u>10,228,084</u>	<u>10,167,731</u>	<u>10,104,091</u>	<u>63,640</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(481,385)</u>	<u>(460,400)</u>	<u>(398,222)</u>	<u>62,178</u>
Other Financing Sources (Uses)				
Net Transfers Out	-	(1,352)	(1,352)	-
Refund of Prior Year Expenditure	2,000	500	500	-
<i>Total Other Financing Sources (Uses)</i>	<u>2,000</u>	<u>(852)</u>	<u>(852)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(479,385)	(461,252)	(399,074)	62,178
<i>Fund Balance Beginning of Year</i>	1,459,143	1,459,143	1,459,143	-
Prior Year Encumbrances Appropriated	22,086	22,086	22,086	-
<i>Fund Balance End of Year</i>	<u>\$1,001,844</u>	<u>\$1,019,977</u>	<u>1,082,155</u>	<u>62,178</u>

East Knox Local School District
Knox County, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
June 30, 2011

	<u>Agency</u>
Assets	
Cash and Cash Equivalents	\$37,596
<i>Total Assets</i>	<u><u>\$37,596</u></u>
Net Assets	
Restricted	\$37,596
<i>Total Net Assets</i>	<u><u>\$37,596</u></u>

See accompanying notes to the basic financial statements.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Knox Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local School District staffed by 67 certified teaching personnel, 55 non-certified support personnel, and 6 administrative personnel to provide services to approximately 1,225 students.

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes general operations, food services, and student related activities of the School District.

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

The School District is associated with the Tri-Rivers Education Computer Association which is a joint governed organization. Information about this organization is presented in Note 12 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America 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.

Following are the more significant of the School District's accounting policies:

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and entity-wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental type activity financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts and expenditures/disbursements. Funds are organized into one major category: governmental. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the School District or meets the following criterion:

1. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the School District are financed. The following are the School District's major governmental funds:

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Capital Projects Fund	This fund accounts for receipts derived from the sale of notes/bonds for capital projects and levies for permanent improvement disbursements. It is used to account for all construction related disbursements and permanent improvement disbursements.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Debt Service Fund	This fund accounts for receipts and proceeds of bond/note issuances derived from levies used for the retirement of debt and related interest.
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The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (continued)

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of disbursements for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the general fund must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations.

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District accounting records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months 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.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Net Cash Assets

Net cash assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The amount restricted for other purposes includes amounts restricted for food service.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash assets are available.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation is not recorded on these capital assets.

G. Accumulated 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 School District.

H. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of capital assets funds are recorded as receipts when the grant is received.

J. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

K. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

Exchange transactions between funds are reported as receipt in the seller funds and disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements. The transfer from the general fund was to an agency fund.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the School District has implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, and GASB Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the School District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the School District’s governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 1,481,229	\$ 511,837	\$ 296,096	\$ 77,994	\$ 2,367,156
Fund reclassifications:					
School supplies	3,072	-	-	(3,072)	-
Public school support fund	11,050	-	-	(11,050)	-
Total fund reclassifications	<u>14,122</u>	<u>-</u>	<u>-</u>	<u>(14,122)</u>	<u>-</u>
Restated fund balance at July 1, 2010	<u>\$ 1,495,351</u>	<u>\$ 511,837</u>	<u>\$ 296,096</u>	<u>\$ 63,872</u>	<u>\$ 2,367,156</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Compliance

Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (B) require the School District to prepare its financial statements in accordance with generally accepted accounting principles. However, the School District opts to prepare its financial statements in accordance with the cash basis of accounting.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. 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.
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptance of banks that are members of the Federal Deposit Insurance Corporation to which obligations both the following apply; obligations are for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School district, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

As of June 30, 2011, the District had \$410 in undeposited cash on hand which is included in the fund balance.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end, the carrying amount of the School District's deposits for checking, savings, and money market accounts was \$2,298,210. Of the bank balance, \$729,856 was covered by federal depository insurance and the remaining balance of \$1,762,399 was covered by a 105% public depository pool, which was collateralized with securities held by pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at cash value. As of June 30, 2011, the district had the following investments:

	Cost as of 6/30/2011	% of Investment Total	Maturities 0-1 Year
STAROhio	\$ 19,254	100%	\$ 19,524
Total Investments	\$ 19,254	100%	\$ 19,524

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

The School District's investments in STAR Ohio were assigned an AAAM money market rating from Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy does not address concentration of credit risk. 100 percent of the School District's investments were with STAR Ohio.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee." However, all of the School District's investments are either insured and registered in the name of the School District or at least registered in the name of the School District.

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2011 represent the collection of calendar year 2010 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2011 were levied after April 1, 2010 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2010, were levied after April 1, 2010, and are collected in 2011 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.

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunication companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces revenue lost by the District due to the phasing out of the tax. In calendar years 2006 through 2010, the District will be fully reimbursed at the level of calendar year 2004 assessed values for the lost revenue. In calendar years 2011 the reimbursement is eliminated.

The School District receives property taxes from Knox, Coshocton, and Licking Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For July 2010 through December 2010, the School District contracted the Indiana Insurance Company for property and general liability insurance. There was a \$1,000 deductible and \$32,257,693 limit. For January 2011 through June 30, 2012, the School District contracted with Ohio School Plan and Hylant Administrative Services for property and general liability coverage. There was a \$1,000 deductible and \$37,409,291 limit.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 6 - RISK MANAGEMENT (Continued)

The School District has professional liability insurance with Ohio School Plan. Professional liability protection was set at \$1,000,000 per single occurrence limit and \$1,000,000 aggregate with a \$2,500 deductible.

Vehicles are covered by the Ohio School Plan with a \$1,000 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Additionally, the district carries a \$11,000,000 aggregate blanket umbrella policy with Ohio School Plan.

The School District has not incurred any significant reductions in coverage from the previous fiscal year. Settled claims have not exceeded coverage in any of the past three fiscal years.

B. Workers' Compensation

The School District participates in the Sheakly Workers' compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$192,004, \$236,130 and \$242,565, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$553,540, \$632,937 and \$636,009, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The School District's liability is 6.2 percent of wages paid.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$46,161, \$45,212 and \$45,429, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$12,356, \$12,818 and \$8,420, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2011

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The School District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$42,580, \$45,212 and \$45,429, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	<u>Outstanding June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2011</u>	<u>Due in One Year</u>
General Obligation Bonds					
Series 2004					
Serial 1.5%-4.42% \$3,110,000	\$ 1,730,000	\$ -	\$ 230,000	\$ 1,500,000	\$ 235,000
Capital Appreciation \$180,000	180,000	-	-	180,000	-
Series 2007					
Serial 4% \$5,795,000	5,535,000	-	5,000	5,530,000	5,000
Capital Appreciation \$259,986	259,986	-	-	259,986	-
Term 4%-4.125% \$3,895,000	3,895,000	-	-	3,895,000	-
Tax Anticipation Notes-Permanent Improvement	485,566		117,152	368,414	119,934
	<u>\$ 12,085,552</u>	<u>\$ -</u>	<u>\$ 352,152</u>	<u>\$ 11,733,400</u>	<u>\$ 359,934</u>

Outstanding general obligation bonds consist of school building construction and include serial, term, and capital appreciation bonds. The accretion of these capital appreciation bonds is not included in the above schedule under the cash basis of accounting. General obligation bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District.

A. Series 2004 General Obligation Bonds

This issuance consisted of serial bonds and capital appreciation bonds. This issuance included a premium of \$153,437. 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%. 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. Total maturity of these capital appreciation bonds is \$510,000. The total estimated current accrued value of these bonds at June 30, 2011 is \$132,600.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

B. Series 2007 General Obligation Bonds

The issuance consisted of serial bonds, term bonds, and capital appreciation bonds. This issuance included a premium of \$154,703. The serial bonds mature at varying amounts annually on December 1, beginning in 2007 and ending in 2028. The rates on these bonds range from 4% to 4.125%. The capital appreciation bonds mature December 1, 2015 and 2016. 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. Total maturity of these capital appreciation bonds is \$730,000. The term bonds mature December 1, 2030 and 2034. The total estimated current accrual value of these bonds at June 30, 2011 is \$124,100.

C. Tax Anticipation Notes- Permanent Improvement

The School District sold Tax Anticipation Notes for the permanent improvement fund on November 3, 2008. These funds were used to finance a stadium renovation project. The rate on the notes is 4.75% and the term is five years. Principal and interest payments are due November 1 each year and additional interest payments are due May 1 each year.

The annual requirement to amortize all long-term debt outstanding as of June 30, 2011 is as follows:

Year	General Obligation Principal	Capital Appreciation Principal	General Obligation Interest	Capital Appreciation Interest	Total
2012	\$ 359,934	\$ -	\$ 449,529	\$ -	\$ 809,463
2013	377,782	-	434,764	-	812,546
2014	130,698	255,000	329,549	94,427	809,674
2015	5,000	255,000	335,220	85,570	680,790
2016	250,000	365,000	278,553	137,262	1,030,815
2017-2021	2,320,000	365,000	1,701,609	122,724	4,509,333
2022-2026	2,325,000	-	1,361,575	-	3,686,575
2027-2031	2,825,000	-	848,175	-	3,673,175
2032-2035	2,700,000	-	228,318	-	2,928,318
Total	<u>\$ 11,293,414</u>	<u>\$ 1,240,000</u>	<u>\$ 5,967,291</u>	<u>\$ 439,983</u>	<u>\$ 18,940,689</u>

The principal in the above amortization does not agree to the principal in the table on page 29 as the above amortization schedule includes total accrued value of the School District's capital appreciation bonds.

NOTE 10 - SHORT-TERM OBLIGATIONS

The changes in the School District's short-term obligations during fiscal year 2011 were as follows:

	Outstanding June 30, 2010	Additions	Deductions	Outstanding June 30, 2011
Bond Anticipation Notes				
Series 2010 2.75%\$2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -
Series 2011 1.80%\$1,605,000	-	1,605,000	-	1,605,000
	<u>\$ 2,000,000</u>	<u>\$ 1,605,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,605,000</u>

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 10 - SHORT-TERM OBLIGATIONS (Continued)

Proceeds from the sale of the Series 2011 Bond Appreciations Notes as well as property tax receipts were used to pay off the Series 2010 that matured on February 24, 2011. The Series 2011 Bond Anticipation Notes have a maturity date of February 15, 2012. This issuance included a premium of \$17,478.

NOTE 11 - STATUTORY RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal years 2011.

	Textbook Instructional Materials Reserve	Capital Improvement Reserve	Total
Set-Aside Reserve Balance as of June 30, 2010	\$ (76,021)	\$ -	\$ (76,021)
Current Year Set-Aside Requirement	184,045	184,045	368,090
Current Year Offsets	-	-	-
Qualifying Disbursements	<u>(105,291)</u>	<u>(209,288)</u>	<u>(314,580)</u>
Totals	<u>\$ 2,733</u>	<u>\$ (25,243)</u>	<u>\$ (22,511)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ -</u>	<u>\$ -</u>	
Set-Aside Reserve Balance as of June 30, 2011	<u>\$ 2,733</u>	<u>\$ -</u>	

Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This positive balance is therefore not being presented as being carried forward to the future fiscal year.

Although the School District had current year offsets that reduced the capital improvements set-aside below zero, the negative balance is not carried forward to the future fiscal year. A schedule of the restricted net assets at June 30, 2011 follows:

Amount restricted for textbooks/instructional supplies	<u>\$ 2,733</u>
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EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2011

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

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 \$31,293.60 to TRECA during fiscal year 2011 for basic student services and connectivity charges.

B. Insurance Purchasing Pool

The School District participates in the Sheakley Uniservice Group Rating Program (GRP), an insurance purchasing pool. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 13 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

NOTE 14 - 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-Budget 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 between the budgetary basis and the cash basis is outstanding year end encumbrances, which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding for year ended June 30, 2011 amounted to \$65,462. Also contributing to the variance are other funds accounted for as part of the general fund on the fund financial statements, but not on the budget and actual basis. Receipts exceeded disbursements by \$11,123 in those funds.

NOTE 15 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The School District had no significant contractual commitments outstanding as of June 30, 2011.

SUPPLEMENTARY DATA

**EAST KNOX LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Child Nutrition Cluster:				
(D) (C) School Breakfast Program	10.553	2011	\$ 83,145	\$ 83,145
(D) (C) National School Lunch Program	10.555	2011	200,139	200,139
(D) (E) National School Lunch Program - Food Donation	10.555	2011	32,440	32,440
Total National School Lunch Program			<u>232,579</u>	<u>232,579</u>
Total U.S. Department of Agriculture and Child Nutrition Cluster			<u>315,724</u>	<u>315,724</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grant Cluster:				
(F) Title I Grants to Local Educational Agencies	84.010	2010	38,212	40,272
(F) Title I Grants to Local Educational Agencies	84.010	2011	254,650	246,957
Total Title I Grants to Local Educational Agencies			<u>292,862</u>	<u>287,229</u>
(F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2010	-	2,487
(F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2011	65,806	65,776
Total ARRA - Title I Grants to Local Educational Agencies, Recovery Act			<u>65,806</u>	<u>68,263</u>
Total Title I Grant Cluster			<u>358,668</u>	<u>355,492</u>
Special Education Grant Cluster:				
(G) Special Education _Grants to States	84.027	2010	24,407	26,514
(G) Special Education _Grants to States	84.027	2011	244,522	238,763
Total Special Education _Grants to States			<u>268,929</u>	<u>265,277</u>
(G) ARRA - Special Education Grants to States, Recovery Act	84.391	2010	2,228	1,284
(G) ARRA - Special Education Grants to States, Recovery Act	84.391	2011	122,473	118,434
Total ARRA - Special Education _Grants to States, Recovery Act			<u>124,701</u>	<u>119,718</u>
Total Special Education Grant Cluster			<u>393,630</u>	<u>384,995</u>
Twenty-First Century Community Learning Centers	84.287	2011	316,621	292,854
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	2011	337,447	337,447
Educational Technology State Grants	84.318	2010	1,437	-
Educational Technology State Grants	84.318	2011	1,093	1,093
Total Educational Technology State Grants			<u>2,530</u>	<u>1,093</u>
Improving Teacher Quality State Grants	84.367	2011	38,362	38,044
Total U.S. Department of Education			<u>1,447,258</u>	<u>1,409,925</u>
Total Federal Financial Assistance			<u>\$ 1,762,982</u>	<u>\$ 1,725,649</u>

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2011.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) Included as part of "Child Nutrition Cluster" in determining major programs.
- (E) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (F) Included as part of "Title I Grant Cluster" when determining major programs.
- (G) Included as part of "Special Education Grant Cluster" when determining major programs.



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**Independent Accountants' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2011, which collectively comprise East Knox Local School District's basic financial statements and have issued our report thereon dated December 21, 2011, wherein we noted the East Knox Local School District uses a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We also noted that the East Knox Local School District adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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 East Knox Local School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the East Knox Local School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the East Knox Local School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the East Knox Local School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-EKLSLSD-001 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Education
East Knox Local School District

Compliance and Other Matters

As part of reasonably assuring whether the East Knox Local School 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2011-EKLSD-002.

The East Knox Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the East Knox Local School District's responses and accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management and Board of Education of the East Knox Local School District, federal awarding agencies and pass-through entities, and others within the East Knox Local School District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 21, 2011



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

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

To the Board of Education:

Compliance

We have audited the compliance of the East Knox Local School District, Knox County, Ohio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the East Knox Local School District's major federal programs for the fiscal year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the East Knox Local School District's major federal programs. The East Knox Local School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the East Knox Local School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the East Knox Local School District's compliance with those requirements.

In our opinion, the East Knox Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

The East Knox Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the East Knox Local School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the East Knox Local School District's internal control over compliance.

Board of Education
East Knox Local School District

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management and Board of Education of the East Knox Local School District, federal awarding agencies and pass-through entities, and others within the East Knox Local School District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
December 21, 2011

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Special Education Grant Cluster: Special Education - Grants to States, CFDA #84.027 and ARRA - Special Education - Grants to States, Recovery Act, CFDA #84.391; Twenty-First Century Community Learning Centers, CFDA 84.287; ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, Recovery Act, CFDA #84.394
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2011-EKLSLSD-001

Significant Deficiency - Financial Statement Presentation

Accurate financial reporting is an important part of the School District’s overall purpose. Financial reporting requires internal controls to help ensure accuracy of report which includes the application of financial statement standards.

The financial statements and notes provided to the auditors did not include the implementation of GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, as required for all financial statements for periods beginning after June 15, 2010. The necessary adjustments have been made to the financial statements and related footnotes.

The presentation of materially correct financial statements and related footnotes is the responsibility of management. Lack of a properly presented financial statement review process could inhibit its financial accountability to both citizens and the Board, which they may use to facilitate School District decisions.

We recommend the School District implement controls procedures that enable management to identify, prevent, detect and correct potential misstatements and footnotes related to the application of financial statement standards.

Client Response: The School District will adopt controls to promote the presentation of materially correct financial statements in accordance with new standards.

Finding Number	2011-EKLSLSD-002
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Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the East Knox Local School District (the “School District”) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The School District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the School District being fined or other administrative remedies.

The School District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2011

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2011-EKLSO-002 - (Continued)

Client Response: The School District is aware of the requirements to file financial statements in accordance with GAAP; however, after performing a cost-benefit analysis, the School District has elected to prepare its financial statements utilizing the cash basis of accounting.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid
2010-001	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 (GAAP).	No	Repeated as finding 2011-EKLS-002



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Independent Accountant's Report on Applying Agreed-Upon Procedures

East Knox Local School District
23201 Coshocton Road
Howard, OH 43028

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether East Knox Local School District has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of this procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on September 8, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Julian & Grube, Inc.

Julian & Grube, Inc.
December 21, 2011

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Dave Yost • Auditor of State

EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2012**