

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

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

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2012***

JESSICA BUSENBURG, TREASURER



Dave Yost • Auditor of State

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

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, 2011 through June 30, 2012. 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

December 14, 2012

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

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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

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, 2012, which collectively comprise the East Knox Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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.

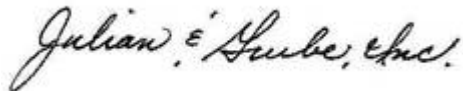
Ohio Administrative Code § 117-2-03 (B) requires the East Knox Local School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow 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, 2012, 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 accounting basis Note 2 describes.

Independent Accountants' Report
East Knox Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, 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.

We conducted our audit to opine on the East Knox Local School District's financial statements taken as a whole. Management's Discussion & Analysis on pages 3 through 9 includes tables of net assets, change in net assets, and total and net cost of program services - governmental activities. The schedule of receipt and expenditures of federal awards on page 35 (the "Schedule") is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were 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. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Julian & Grube, Inc.
September 26, 2012

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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, 2012. 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 2012 are as follows:

General revenues accounted for \$11,881,468 in revenue or 80.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted \$2,819,848 or 19.18% of total revenues of \$14,701,316.

Total program expenses were \$14,800,638.

In total, net assets decreased \$99,322.

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, 2012
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 2012, 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, 2012
Unaudited

The School District as a Whole

Table 1 provides a summary of the District's net assets for 2012 compared to 2011 on a cash basis of accounting.

(Table 1)
Net Assets

| | Governmental Activities | |
|---------------------------|-------------------------|--------------|
| | 2012 | 2011 |
| Assets | | |
| Cash and Cash Equivalents | \$ 2,180,956 | \$ 2,280,278 |
| Total Assets | \$ 2,180,956 | \$2,280,278 |
| Net Assets | | |
| Restricted for: | | |
| Capital Projects | \$ 640,575 | \$ 499,991 |
| Debt Service | 605,238 | 512,060 |
| Other Purposes | 77,392 | 98,098 |
| Unrestricted | 857,751 | 1,170,129 |
| Total Net Assets | \$2,180,956 | \$2,280,278 |

Net assets of governmental activities decreased \$99,322 during fiscal year 2012. Unrestricted net assets decreased by \$312,378 due to disbursements exceeding receipts for the general fund related activities in 2012.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for fiscal year 2012 compared to 2011:

(Table 2)
Change in Net Assets

| | Governmental Activities 2012 | Governmental Activities 2011 |
|--|------------------------------------|------------------------------------|
| Receipts: | | |
| Program Receipts: | | |
| Charges for Services and Sales | \$894,228 | \$844,980 |
| Operating Grants and Contributions | 1,925,620 | 1,789,370 |
| Total Program Receipts | <u>2,819,848</u> | <u>2,634,350</u> |
| General Receipts: | | |
| Property and Other Local Taxes | 5,906,501 | 5,915,293 |
| Grants and Entitlements Not Restricted to Specific Programs | 4,625,568 | 4,988,652 |
| Interest | 11,880 | 32,172 |
| Proceeds Note/Bond Sales | 1,300,000 | 1,605,000 |
| Premium on Debt Issue | 16,120 | 17,478 |
| Miscellaneous | 21,399 | 26,823 |
| Total General Receipts | <u>11,881,468</u> | <u>12,585,418</u> |
| Total Receipts | <u>14,701,316</u> | <u>15,219,768</u> |
| Disbursements: | | |
| Instruction | 7,237,032 | 7,230,217 |
| Support Services | 4,366,164 | 4,421,611 |
| Food Service | 469,006 | 538,013 |
| Other non-instructional services | 22,343 | - |
| Extracurricular Activities | 258,821 | 262,053 |
| Capital Outlay | - | 2,877 |
| Debt Service | 2,447,272 | 2,851,875 |
| Total Disbursements | <u>14,800,638</u> | <u>15,306,646</u> |
| Decrease in Net Assets | (99,322) | (86,878) |
| Net Assets, Beginning of Year | 2,280,278 | 2,367,156 |
| Net Assets, End of Year | <u>\$2,180,956</u> | <u>\$2,280,278</u> |

Total receipts decreased in fiscal year 2012. Proceeds from note sales decreased by \$305,000 due to a one year note continuing to be paid down. Interest earnings decreased by \$20,292 due to a decline in interest rates. Grants and entitlements not restricted for specific programs decreased due to the decrease in state foundation funding. Operating grants increased by \$136,250.

Total disbursements decreased in fiscal year 2012 by \$506,008. The most dramatic changes can be attributed to debt service fund expenditure reductions which were \$2,744,153 in fiscal year 2011 and were reduced to \$2,347,247 in fiscal year 2012, a decrease of \$396,906.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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 2012 | Total Cost of Services 2011 | Net Cost of Services 2012 | Net Cost of Services 2011 |
|--|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| Instruction | \$ 7,237,032 | \$ 7,230,217 | \$ 5,914,210 | \$ 5,803,168 |
| Support Services: | | | | |
| Pupil and Instructional Staff | 1,127,603 | 1,195,703 | 602,476 | 862,345 |
| Board of Education, Administration and Fiscal | 1,437,051 | 1,368,211 | 1,149,703 | 1,106,289 |
| Operation of Maintenance and Plant | 943,748 | 1,028,284 | 941,388 | 1,028,284 |
| Pupil Transportation | 827,762 | 829,413 | 808,027 | 829,413 |
| Central | 30,000 | - | 1,577 | - |
| Food Service | 469,006 | 538,013 | (17,323) | 31,120 |
| Other non-instructional services | 22,343 | - | 22,343 | - |
| Extracurricular Activities | 258,821 | 262,053 | 111,117 | 156,925 |
| Capital Outlay | - | 2,877 | - | 2,877 |
| Debt Service | 2,447,272 | 2,851,875 | 2,447,272 | 2,851,875 |
| Total | \$ 14,800,638 | \$ 15,306,646 | \$ 11,980,790 | \$ 12,672,296 |

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 \$14,701,316 and cash disbursements of \$14,800,638.

The District's general fund cash balance decreased by \$310,521 due to a decrease in state revenue, stagnant property tax revenue, and the overall spending deficit trend from the past few years.

The District's debt service fund cash balance increased by \$93,178 due to property taxes, state revenue and note proceeds exceeding the principal and interest payments.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The District's capital project fund cash balance increased by \$140,584 due to tax receipts being higher than disbursements from the fund.

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 2012, 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, 2012 the District had \$11,124,986 in bonds outstanding with \$255,000 due within one year. The District also had \$248,480 in tax anticipation notes outstanding with \$122,782 due within one year. The District also had \$1,300,000 in bond anticipation notes outstanding at June 30, 2012. The bond anticipation notes are due February 7, 2013. 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 2012. 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 six 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 had shown steady increases until 2009. For the past three years revenues have declined or remained stable. 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 was 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, 2011, and 2012. The district received an additional \$376,000 reduction in state funding in 2012 plus approximately \$72,000 in lost tangible personal property tax reimbursement.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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.

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
KNOX COUNTY, OHIO**

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 2,180,956 |
| Total assets. | \$ 2,180,956 |
| Net Cash Assets: | |
| Restricted for: | |
| Capital projects | \$ 640,575 |
| Debt service. | 605,238 |
| Locally funded programs | 7,944 |
| Federally funded programs | 8,490 |
| Student activities | 19,455 |
| Other purposes | 41,503 |
| Unrestricted. | 857,751 |
| Total net cash assets | \$ 2,180,956 |

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, 2012

| | Cash Disbursements | Program Cash Receipts | | Net (Disbursements) Receipts and Changes in Net Cash Assets Governmental Activities |
|--|-----------------------|-----------------------------------|---------------------------------------|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 3,727,462 | \$ 501,961 | \$ 90,080 | \$ (3,135,421) |
| Special | 1,435,018 | 57,554 | 646,439 | (731,025) |
| Vocational | 242,307 | - | 26,788 | (215,519) |
| Other | 1,832,245 | - | - | (1,832,245) |
| Support services: | | | | |
| Pupil. | 665,923 | - | 143,934 | (521,989) |
| Instructional staff | 461,680 | - | 381,193 | (80,487) |
| Board of education | 15,620 | - | - | (15,620) |
| Administration. | 1,065,693 | - | 287,348 | (778,345) |
| Fiscal. | 355,738 | - | - | (355,738) |
| Operations and maintenance | 943,748 | 2,360 | - | (941,388) |
| Pupil transportation. | 827,762 | 4,477 | 15,258 | (808,027) |
| Central | 30,000 | - | 28,423 | (1,577) |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | 22,343 | - | - | (22,343) |
| Food service operations | 469,006 | 192,210 | 294,119 | 17,323 |
| Extracurricular activities. | 258,821 | 135,666 | 12,038 | (111,117) |
| Debt service: | | | | |
| Principal retirement. | 1,964,934 | - | - | (1,964,934) |
| Interest and fiscal charges | 478,338 | - | - | (478,338) |
| Note issuance costs. | 4,000 | - | - | (4,000) |
| Total governmental activities | \$ 14,800,638 | \$ 894,228 | \$ 1,925,620 | (11,980,790) |
| General Receipts: | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | 4,351,553 |
| Debt service. | | | | 973,645 |
| Capital outlay. | | | | 581,303 |
| Sale of notes. | | | | 1,300,000 |
| Premium on debt issuance. | | | | 16,120 |
| Grants and entitlements not restricted to specific programs | | | | 4,625,568 |
| Investment earnings | | | | 11,880 |
| Miscellaneous | | | | 21,399 |
| Total general revenues | | | | 11,881,468 |
| Change in net cash assets | | | | (99,322) |
| Net cash assets at beginning of year. | | | | 2,280,278 |
| Net cash assets at end of year | | | | \$ 2,180,956 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | <u>General</u> | <u>Debt Service Fund</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|------------------------------|-----------------------------|---|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents. | \$ 862,341 | \$ 605,238 | \$ 640,575 | \$ 72,802 | \$ 2,180,956 |
| Total assets | <u>\$ 862,341</u> | <u>\$ 605,238</u> | <u>\$ 640,575</u> | <u>\$ 72,802</u> | <u>\$ 2,180,956</u> |
| Fund Cash Balances: | | | | | |
| Restricted: | | | | | |
| Debt service | \$ - | \$ 605,238 | \$ - | \$ - | \$ 605,238 |
| Capital improvements | - | - | 640,575 | - | 640,575 |
| Food service operations | - | - | - | 41,503 | 41,503 |
| Special education | - | - | - | 5,310 | 5,310 |
| Targeted academic assistance | - | - | - | 3,180 | 3,180 |
| Extracurricular. | - | - | - | 19,455 | 19,455 |
| Other purposes. | - | - | - | 7,944 | 7,944 |
| Assigned: | | | | | |
| Student instruction | 11,927 | - | - | - | 11,927 |
| Student and staff support | 58,312 | - | - | - | 58,312 |
| Extracurricular activities. | 1,363 | - | - | - | 1,363 |
| School supplies. | 5,916 | - | - | - | 5,916 |
| Future appropriations. | 719,277 | - | - | - | 719,277 |
| Unassigned (deficit) | 65,546 | - | - | (4,590) | 60,956 |
| Total fund cash balances | <u>\$ 862,341</u> | <u>\$ 605,238</u> | <u>\$ 640,575</u> | <u>\$ 72,802</u> | <u>\$ 2,180,956</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, 2012

| | <u>General</u> | <u>Debt Service Fund</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|------------------------------|-----------------------------|---|---|
| Receipts: | | | | | |
| Property taxes | \$ 4,351,553 | \$ 973,645 | \$ 581,303 | \$ - | \$ 5,906,501 |
| Tuition | 481,937 | - | - | - | 481,937 |
| Transportation fees | 4,477 | - | - | - | 4,477 |
| Earnings on investments | 11,873 | 7 | - | 236 | 12,116 |
| Charges for services | - | - | - | 192,155 | 192,155 |
| Extracurricular | 69,443 | - | - | 62,452 | 131,895 |
| Classroom materials and fees | 22,488 | - | - | - | 22,488 |
| Rental income | 2,360 | - | - | - | 2,360 |
| Contributions and donations | 1,000 | - | - | 15,980 | 16,980 |
| Contract services | 55,090 | - | - | - | 55,090 |
| Other local revenues | 20,399 | - | - | 9,174 | 29,573 |
| Intergovernmental - state | 4,614,529 | 150,653 | 91,917 | 11,537 | 4,868,636 |
| Intergovernmental - federal | 45,916 | - | - | 1,615,072 | 1,660,988 |
| Total receipts | 9,681,065 | 1,124,305 | 673,220 | 1,906,606 | 13,385,196 |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 3,510,700 | - | 125,132 | 91,630 | 3,727,462 |
| Special | 1,023,958 | - | 4,538 | 406,522 | 1,435,018 |
| Vocational | 240,545 | - | 1,762 | - | 242,307 |
| Other | 1,832,245 | - | - | - | 1,832,245 |
| Support services: | | | | | |
| Pupil | 511,225 | - | 5,837 | 148,861 | 665,923 |
| Instructional staff | 64,234 | - | - | 397,446 | 461,680 |
| Board of education | 15,620 | - | - | - | 15,620 |
| Administration | 766,309 | - | 5,846 | 293,538 | 1,065,693 |
| Fiscal | 301,255 | 34,560 | 19,923 | - | 355,738 |
| Operations and maintenance | 875,474 | - | 68,274 | - | 943,748 |
| Pupil transportation | 678,766 | - | 139,014 | 9,982 | 827,762 |
| Central | - | - | - | 30,000 | 30,000 |
| Operation of non-instructional services: | | | | | |
| Operation of non-instructional | - | - | 22,343 | - | 22,343 |
| Food service operations | - | - | - | 469,006 | 469,006 |
| Extracurricular activities | 171,255 | - | 5,382 | 82,184 | 258,821 |
| Debt service: | | | | | |
| Principal retirement | - | 1,845,000 | 119,934 | - | 1,964,934 |
| Interest and fiscal charges | - | 463,687 | 14,651 | - | 478,338 |
| Note issuance costs | - | 4,000 | - | - | 4,000 |
| Total disbursements | 9,991,586 | 2,347,247 | 532,636 | 1,929,169 | 14,800,638 |
| Excess (deficiency) of revenues over (under) disbursements | (310,521) | (1,222,942) | 140,584 | (22,563) | (1,415,442) |
| Other financing sources: | | | | | |
| Premium on notes sold | - | 16,120 | - | - | 16,120 |
| Sale of notes | - | 1,300,000 | - | - | 1,300,000 |
| Total other financing sources | - | 1,316,120 | - | - | 1,316,120 |
| Net change in fund balances | (310,521) | 93,178 | 140,584 | (22,563) | (99,322) |
| Fund cash balances at beginning of year | 1,172,862 | 512,060 | 499,991 | 95,365 | 2,280,278 |
| Fund cash balances at end of year | \$ 862,341 | \$ 605,238 | \$ 640,575 | \$ 72,802 | \$ 2,180,956 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Budgetary basis receipts: | | | | |
| Property taxes | \$ 4,289,000 | \$ 4,351,553 | \$ 4,351,553 | \$ - |
| Tuition | 475,000 | 481,937 | 481,937 | - |
| Transportation fees | 1,000 | 4,477 | 4,477 | - |
| Earnings on investments | 20,000 | 13,192 | 11,873 | (1,319) |
| Extracurricular | 65,000 | 50,593 | 50,593 | - |
| Classroom materials and fees | 500 | 770 | 770 | - |
| Rental income | 1,200 | 2,360 | 2,360 | - |
| Contributions and donations | - | 1,000 | 1,000 | - |
| Contract services | 35,000 | 55,090 | 55,090 | - |
| Other local revenues | 1,000 | 7,808 | 7,808 | - |
| Intergovernmental - state | 4,633,386 | 4,614,529 | 4,614,529 | - |
| Intergovernmental - federal | 55,000 | 45,916 | 45,916 | - |
| Total receipts | 9,576,086 | 9,629,225 | 9,627,906 | (1,319) |
| Budgetary basis disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,630,386 | 3,495,302 | 3,494,591 | 711 |
| Special | 1,010,850 | 1,027,087 | 1,026,956 | 131 |
| Vocational | 213,850 | 240,768 | 240,745 | 23 |
| Other | 1,866,166 | 1,837,576 | 1,837,245 | 331 |
| Support services: | | | | |
| Pupil | 492,792 | 513,568 | 511,598 | 1,970 |
| Instructional staff | 44,211 | 64,235 | 64,234 | 1 |
| Board of education | 15,478 | 15,682 | 15,682 | - |
| Administration | 766,955 | 776,393 | 774,858 | 1,535 |
| Fiscal | 294,363 | 302,811 | 302,098 | 713 |
| Operations and maintenance | 956,232 | 907,310 | 887,546 | 19,764 |
| Pupil transportation | 706,328 | 689,459 | 689,029 | 430 |
| Extracurricular activities | 182,853 | 148,530 | 148,530 | - |
| Total disbursements | 10,180,464 | 10,018,721 | 9,993,112 | 25,609 |
| Excess of budgetary basis disbursements over budgetary basis receipts | (604,378) | (389,496) | (365,206) | 24,290 |
| Other financing sources: | | | | |
| Refund of prior year's expenditures | 1,000 | 3,775 | 3,775 | - |
| Total other financing sources | 1,000 | 3,775 | 3,775 | - |
| Net change in fund balance | (603,378) | (385,721) | (361,431) | 24,290 |
| Fund balance at beginning of year | 1,082,155 | 1,082,155 | 1,082,155 | - |
| Prior year encumbrances appropriated | 65,462 | 65,462 | 65,462 | - |
| Fund balance at end of year | \$ 544,239 | \$ 761,896 | \$ 786,186 | \$ 24,290 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUND
JUNE 30, 2012

| | <u>Agency</u> |
|---|------------------|
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents | \$ 40,482 |
| Total assets. | <u>\$ 40,482</u> |
| Net cash assets: | |
| Held in trust for scholarships | \$ 40,482 |
| Total net cash assets | <u>\$ 40,482</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE DISTRICT

East Knox Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected, five-member Board. The District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local District staffed by 67 certified teaching personnel, 58 non-certified support personnel and 8 administrative personnel to provide services to approximately 1,404 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the 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.

A. Reporting Entity

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 District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Government Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

B. 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 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 disbursements 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 disbursements 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
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the 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 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 District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the District segregates transactions related to certain 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 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 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 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 District are financed. The following are the District's major governmental funds:

| | |
|-----------------------|---|
| General Fund | The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for and report 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
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. |
|-------------------|---|

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

D. 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 levels 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 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 District Treasurer.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 levels 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.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the 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 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 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. Investments are reported at cost.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2012, investments were limited to certificates of deposit, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares prices, which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest receipts credited to the general fund during fiscal year 2012 amounted to \$11,873, which includes \$7,080 assigned from other funds.

F. 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. As of June 30, 2012, there were no net cash assets restricted by enabling legislation.

G. 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.

H. 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 District.

I. 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.

J. 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.

K. Inventory and Prepaid Items

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

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

M. Employer Contributions to Cost-Sharing Pension Plans

The 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.

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the 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 District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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 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 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.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District applies restricted resources first when disbursements 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (B) require the District to prepare its financial statements in accordance with accounting principles generally accepted in the United State of America. However, the 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 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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;
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 both of the following obligations apply; obligations are for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Protection of 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 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.

A. Cash on hand

As of June 30, 2012, the District had \$430 in undeposited cash on hand which is included in the fund balance.

B. Deposits

At June 30, 2012, the carrying amount of the District's deposits was \$2,201,668. Of the District's \$2,296,941 bank balance, \$668,318 was covered by federal depository insurance and the remaining balance of \$1,628,623 was exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments.

C. Investments

Investments are reported at cash value. As of June 30, 2012, the district had the following investments:

| | <u>Carrying Value</u> | <u>% of Investment Total</u> | <u>Maturities 6 months or less</u> |
|-------------------|-----------------------|----------------------------------|--|
| STAR Ohio | \$ 19,340 | 100% | \$ 19,340 |
| Total Investments | \$ 19,340 | 100% | \$ 19,340 |

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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 District's investment policy addresses interest rate risk by requiring that the District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

The 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 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 District's investment policy does not address concentration of credit risk. 100 percent of the District's investments were with STAR Ohio.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the 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 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 District's investments are either insured and registered in the name of the District or at least registered in the name of the District.

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash as reported on the statement of net assets as of June 30, 2012:

| | |
|---|---------------------|
| <u>Cash per note</u> | |
| Carrying amount of deposits | \$ 2,201,668 |
| Investments | 19,340 |
| Cash on hand | 430 |
| Total | <u>\$ 2,221,438</u> |
| <u>Cash per statement of net assets</u> | |
| Governmental activities | \$ 2,180,956 |
| Agency funds | 40,482 |
| Total | <u>\$ 2,221,438</u> |

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in the District's fiscal year ended June 30, 2012 (other than public utility property) generally represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after October 1, 2010 on the value as of December 31, 2010. Amounts paid by multi-county taxpayers were due September 20, 2011. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2011, with the remainder payable by September 20, 2011.

The District receives property taxes from Knox, Coshocton and Licking Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

| | 2011 Second Half Collections | | 2012 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 237,537,250 | 97.61 | \$ 233,526,260 | 97.36 |
| Public utility personal | <u>5,819,270</u> | <u>2.39</u> | <u>6,326,520</u> | <u>2.64</u> |
| Total | <u>\$ 243,356,520</u> | <u>100.00</u> | <u>\$ 239,852,780</u> | <u>100.00</u> |

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For the fiscal year, the 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
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 6 - RISK MANAGEMENT (Continued)

The District has professional liability insurance with Ohio School Plan. Professional liability protection was set at \$4,000,000 per single occurrence limit and \$5,000,000 aggregate with no deductible.

Vehicles are covered by the Ohio School Plan with a \$1,000 deductible for comprehensive and collision. Automobile liability has a \$4,000,000 combined single limit of liability.

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

The 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 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 District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all 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. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The 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 "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 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 District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$185,996, \$192,004 and \$236,130, respectively; 62.99 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The 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".

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

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 2012, plan members were required to contribute 10 percent of their annual covered salaries. The 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$531,956, \$553,540 and \$632,937, respectively; 84.11 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The 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 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the 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 "Employers/Audit Resources".

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 2012, 0.55 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 2012, 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 District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$30,967, \$46,161 and \$45,212, respectively; 62.99 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$10,984, \$12,356 and \$12,818, respectively; 62.99 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$40,920, \$42,580 and \$45,212, respectively; 84.11 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2012 were as follows:

| | <u>Outstanding June 30, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Outstanding June 30, 2012</u> | <u>Due in One Year</u> |
|--|--------------------------------------|------------------|---------------------|--------------------------------------|----------------------------|
| General Obligation Bonds: | | | | | |
| Series 2004 | | | | | |
| Serial 1.5%-4.42% \$3,110,000 | \$ 1,500,000 | \$ - | \$ (235,000) | \$ 1,265,000 | \$ 250,000 |
| Capital Appreciation \$180,000 | 180,000 | - | - | 180,000 | - |
| Series 2007 | | | | | |
| Serial 4% \$5,795,000 | 5,530,000 | - | (5,000) | 5,525,000 | 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 | 368,414 | - | (119,934) | 248,480 | 122,782 |
| | <u>\$ 11,733,400</u> | <u>\$ -</u> | <u>\$ (359,934)</u> | <u>\$ 11,373,466</u> | <u>\$ 377,782</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 District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the 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 4.42%. 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, 2012 is \$419,340.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

B. Series 2007 General Obligation Bonds

This 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, 2012 is \$467,266.

C. Tax Anticipation Notes- Permanent Improvement

The 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, 2012 is as follows:

| Year | General Obligation Principal | Capital Appreciation Principal | General Obligation Interest | Capital Appreciation Interest | Total |
|-------------|---------------------------------|-----------------------------------|--------------------------------|----------------------------------|----------------------|
| 2013 | \$ 377,782 | \$ - | \$ 434,764 | \$ - | \$ 812,546 |
| 2014 | 130,698 | 94,430 | 329,549 | 160,570 | 715,247 |
| 2015 | 5,000 | 85,570 | 335,220 | 169,430 | 595,220 |
| 2016 | 250,000 | 137,262 | 278,553 | 227,738 | 893,553 |
| 2017 | 255,000 | 122,724 | 405,842 | 242,276 | 1,025,842 |
| 2018 - 2022 | 2,495,000 | - | 1,727,269 | - | 4,222,269 |
| 2023 - 2027 | 2,415,000 | - | 1,266,776 | - | 3,681,776 |
| 2028 - 2032 | 2,940,000 | - | 732,480 | - | 3,672,480 |
| 2033 - 2035 | 2,065,000 | - | 130,041 | - | 2,195,041 |
| Total | <u>\$ 10,933,480</u> | <u>\$ 439,986</u> | <u>\$ 5,640,494</u> | <u>\$ 800,014</u> | <u>\$ 17,813,974</u> |

D. Legal Debt Margin

The District's total voted debt margin was \$10,818,522 with an unvoted debt margin of \$239,853 at June 30, 2012.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 10 - SHORT-TERM OBLIGATIONS

The changes in the District's short-term obligations during fiscal year 2012 were as follows:

| | <u>Outstanding June 30, 2011</u> | <u>Additions</u> | <u>Deductions</u> | <u>Outstanding June 30, 2012</u> |
|-------------------------------|--------------------------------------|---------------------|-----------------------|--------------------------------------|
| Bond Anticipation Notes: | | | | |
| Series 2011 1.80% \$1,605,000 | \$ 1,605,000 | \$ - | \$ (1,605,000) | \$ - |
| Series 2012 1.75% \$1,300,000 | - | 1,300,000 | - | 1,300,000 |
| | <u>\$ 1,605,000</u> | <u>\$ 1,300,000</u> | <u>\$ (1,605,000)</u> | <u>\$ 1,300,000</u> |

Proceeds from the sale of Series 2012 Bond Anticipation Notes as well as property taxes were used to pay off the Series 2011 Bond Anticipation Notes that matured on February 15, 2012. The Series 2012 Bond Anticipation Notes were issued on February 8, 2012 and have a maturity date of February 7, 2013. This issuance included a premium of \$16,120.

NOTE 11 - STATUTORY RESERVES

The District is required by State law to annually set-aside certain general fund receipt amounts, as defined by statutory formula, 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 year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Disbursements exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2011 | \$ - |
| Current year set-aside requirement | 208,735 |
| Contributions in excess of the current fiscal year set-aside requirement | - |
| Current year qualifying expenditures | - |
| Excess qualified expenditures from prior years | - |
| Current year offsets | (208,735) |
| Waiver granted by ODE | - |
| Prior year offset from bond proceeds | - |
| Total | <u>\$ -</u> |
| Balance carried forward to fiscal year 2013 | <u>\$ -</u> |
| Set-aside balance June 30, 2012 | <u>\$ -</u> |

**EAST KNOX LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012**

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

A. Jointly Governed Organization

The District is a participant in the Tri-Rivers Educational Computer Associations (TRECA), which is a computer consortium. TRECA is an association of public 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 District is limited to its representation on the Board. The District paid \$89,499 to TRECA during fiscal year 2012 for basic student services and connectivity charges.

B. Insurance Purchasing Pools

Sheakley Worker's Compensation Group Rating Plan

The District participates in the Sheakley Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool. Each year, the participating Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

The Ohio School Plan (the "Plan") is a shared liability, property and fleet insurance risk pool which is governed by a Board of thirteen school superintendents, business managers and treasurers. Harcum-Schuett, the insurance agency, has one board seat. OSBA, BASA and OASBO executive directors serve as ex-officio members. 450 educational entities are served by the Plan. The Plan's board elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Plan. All Plan revenues are generated from charges for services. For more information, write to the Ohio School Plan, Hylant Administrative Services, LLC., 811 Madison Avenue, P.O. Box 2083, Toledo, Ohio 43603.

NOTE 13 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in pending litigation, but no liability is anticipated in excess of insurance coverage.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is (1) outstanding year end encumbrances are treated as disbursements (budget) rather than assigned fund balance (cash) and (2) certain funds are included in the general fund on a cash-basis but budgeted as special revenue funds on a budget-basis.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the general fund:

Net Change in Fund Balance

| | <u>General fund</u> |
|-----------------------------|---------------------|
| Cash basis | \$ (310,521) |
| Funds budgeted elsewhere ** | (6,822) |
| Adjustment for encumbrances | (44,088) |
| Budget basis | <u>\$ (361,431)</u> |

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 15 - COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year disbursements and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund</u> | <u>Year-End Encumbrances</u> |
|--------------------|----------------------------------|
| General | \$ 45,451 |
| Capital projects | 89,369 |
| Other governmental | 16,825 |
| Total | <u>\$ 151,645</u> |

NOTE 16 - SIGNIFICANT SUBSEQUENT EVENTS

A. Change in Administration

Stephen Larcomb was hired as the District's new superintendent, effective August 1, 2012.

B. Fiscal Caution

The District is required to prepare and file, with the Superintendent of the Ohio Department of Education, a five year forecast. On September 4, 2012, the District was declared to be in a state of fiscal caution by the Ohio Department of Education. Although the District ended fiscal year 2012 with a positive cash fund balance in the general fund, the District's five year forecast is projecting a deficit fund balance for the fiscal years ending 2013, 2014, 2015, and 2016. The District has submitted a fiscal caution proposal to the Ohio Department of Education to eliminate the projected deficit fund balance for fiscal year 2013. However, as of the date of this report, this proposal has not yet been approved by the Ohio Department of Education.

SUPPLEMENTARY DATA

**EAST KNOX LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| 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 | 2012 | \$ 87,870 | \$ 87,870" |
| (D) (C) National School Lunch Program | 10.555 | 2012 | 200,030 | 200,030" |
| (D) (E) National School Lunch Program - Food Donation | 10.555 | 2012 | 35,113 | 35,113 |
| Total National School Lunch Program | | | <u>235,143</u> | <u>235,143</u> |
| Total U.S. Department of Agriculture and Child Nutrition Clustet | | | <u>323,013</u> | <u>323,013</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 | 2011 | 33,261 | 40,955 |
| (F) Title I Grants to Local Educational Agencies | 84.010 | 2012 | 313,385 | 310,205 |
| Total Title I Grants to Local Educational Agencies | | | <u>346,646</u> | <u>351,160</u> |
| (F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 2011 | 1,467 | 1,497 |
| Total Title I Grant Cluster | | | <u>348,113</u> | <u>352,657</u> |
| Special Education Grant Cluster: | | | | |
| (G) Special Education_ Grants to States | 84.027 | 2011 | 21,307 | 27,066 |
| (G) Special Education_ Grants to States | 84.027 | 2012 | 233,028 | 227,719 |
| Total Special Education Grant Cluster | | | <u>254,335</u> | <u>254,785</u> |
| (G) ARRA - Special Education Grants to States, Recovery Act | 84.391 | 2011 | 7,667 | 11,705 |
| Total Special Education Grant Cluster | | | <u>262,002</u> | <u>266,490</u> |
| (H) Fund for the Improvement of Education | 84.215 | 2012 | 168,500 | 168,480 |
| Twenty-First Century Community Learning Centers | 84.287 | 2011 | 5,177 | 28,944 |
| Twenty-First Century Community Learning Centers | 84.287 | 2012 | 337,641 | 342,251 |
| Total Twenty-First Century Community Learning Centers | | | <u>342,818</u> | <u>371,195</u> |
| Education Technology State Grants | 84.318 | 2012 | 2,200 | 2,200 |
| Improving Teacher Quality State Grants | 84.367 | 2011 | 1,035 | 1,353 |
| Improving Teacher Quality State Grants | 84.367 | 2012 | 29,392 | 29,392 |
| Total Improving Teacher Quality State Grants | | | <u>30,427</u> | <u>30,745</u> |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race to the Top, Recovery Act | 84.395 | 2012 | 700 | 700 |
| Education Jobs Fund | 84.410 | 2012 | 172,430 | 172,430 |
| Total U.S. Department of Education | | | <u>1,327,190</u> | <u>1,364,897</u> |
| Total Federal Financial Assistance | | | <u>\$ 1,650,203</u> | <u>\$ 1,687,910</u> |

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

- (A) OAKS did not assign pass-through numbers for fiscal year 2012.
- (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.
- (H) Grant was received directly from the federal grantor



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Serving Ohio Local Governments

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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, as of and for the fiscal year ended June 30, 2012, which collectively comprise the East Knox Local School District's basic financial statements and have issued our report thereon dated September 26, 2012, 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 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 was not designed to 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.


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 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 2012-EKLSD-001.

Board of Education
East Knox Local School District

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

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.
September 26, 2012



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 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, 2012. 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 opine on the East Knox Local School District's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these 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, 2012.

Internal Control Over Compliance

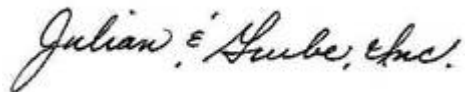
The East Knox Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the East Knox 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. It is not intended for anyone other than these specified parties.

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

Julian & Grube, Inc.
September 26, 2012

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

| 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> | No |
| <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> | Title I Grant Cluster: Title I Grants to Local Educational Agencies; CFDA #84.010 and ARRA-Title I Grants to Local Educational Agencies, Recovery Act; CFDA #84.389; Education Jobs Fund; CFDA #84.410 |
| <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> | Yes |

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

| | |
|---|----------------|
| 2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
| Finding Number | 2012-EKLSO-001 |

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 District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The 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 District being fined or other administrative remedies.

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

Client Response: The decision to prepare cash basis financial statements is a decision the Board of Education believes to be in the best interests of the District. The Board evaluated the cost-benefit relationship of preparing GAAP statements for the fiscal year ended June 30, 2012 and made the decision that the significant dollars saved, outweighed the benefit received.

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

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid |
|-----------------------|--|-------------------------|---|
| 2011-EKLSD-001 | <u>Significant Deficiency - Financial Statement Presentation:</u> The financial statements and notes provided to the auditors did not include the implementation of GASB Statement No. 54, " <u>Fund Balance Reporting and Governmental Fund Type Definitions</u> ". | Yes | N/A |
| 2011-EKLSD-002 | <u>Noncompliance:</u> 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). The District prepared its annual financial report in accordance with the cash basis of accounting. | No | Repeated as finding 2012-EKLSD-001 |

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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
DECEMBER 27, 2012**