

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

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2015***

JESSICA BUSENBURG, CPA, 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 Auditor's Report* of the East Knox Local School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. 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 29, 2015

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Members of the Board of Education:

Report on the Financial Statements

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, 2015, and the related notes to the financial statements, which collectively comprise the East Knox Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the East Knox Local School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the East Knox Local School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2015, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Emphasis of Matter

As described in Note 15 to the basic financial statements, on February 5, 2015, the Auditor of State declared the East Knox Local School District to be in a state of fiscal emergency as defined by Ohio Revised Code Section 3316.03(B)(3). We did not modify our opinion regarding this matter.

Accounting Basis

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash accounting basis, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the East Knox Local School District's financial statements that collectively comprise its basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards (the "Schedule") presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule 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 Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We applied no procedures to the Management's Discussion & Analysis, presented on pages 3 - 9 and the Other Information - Net Pension Liability presented on pages 47 - 53 of the report, and accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Knox Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
October 21, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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, 2015. 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 2015 are as follows:

General receipts accounted for \$10,998,277 in receipts or 82.13% of all receipts. Program specific receipts in the form of charges for services and sales and operating grants and contributions accounted \$2,393,021 or 17.87% of total receipts of \$13,391,298.

Total cash disbursements were \$12,811,194.

In total, net cash position increased \$580,104.

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 Position* 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
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

The statement of net position and the statement of activities reflect how the District did financially during fiscal year 2015, within the limitations of cash basis accounting. The statement of net position-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, proprietary 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 fund and the bond retirement fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the government-wide statements.

Proprietary Funds - The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance.

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 position-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
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The School District as a Whole

Table 1 provides a summary of the District's net cash position for 2015 compared to 2014.

**(Table 1)
Net Cash Position**

	Governmental Activities	
	2015	2014
Assets		
Cash and Cash Equivalents	\$ 2,985,474	\$ 2,207,516
Cash with fiscal agent	114,699	312,553
Total Assets	\$ 3,100,173	\$ 2,520,069
 Net Cash Position		
Restricted for:		
Capital Projects	\$ 241,274	\$ 221,923
Debt Service	943,043	659,499
Other Purposes	130,657	131,647
Unrestricted	1,785,199	1,507,000
Total Net Cash Position	\$ 3,100,173	\$ 2,520,069

Net cash position of governmental activities increased \$580,104 during fiscal year 2015. This increase is a result of increased tax revenues and decreased expenditures related to debt service.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Table 2 shows the changes in net cash position for fiscal year 2015 compared to 2014:

**(Table 2)
Change in Net Cash Position**

	Governmental Activities 2015	Governmental Activities 2014
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$932,461	\$907,599
Operating Grants and Contributions	1,460,560	2,007,146
Total Program Receipts	<u>2,393,021</u>	<u>2,914,745</u>
General Receipts:		
Property and Other Local Taxes	6,181,190	5,930,866
Grants and Entitlements Not Restricted to Specific Programs	4,753,552	4,788,790
Interest	8,267	5,794
Proceeds Note/Bond Sales	-	750,000
Premium on Debt Issue	-	41,802
Miscellaneous	55,268	162,528
Total General Receipts	<u>10,998,277</u>	<u>11,679,780</u>
Total Receipts	<u>13,391,298</u>	<u>14,594,525</u>
Disbursements:		
Instruction	7,151,542	6,804,812
Support Services	4,292,811	4,423,302
Food Service	389,607	390,939
Other non-instructional services	32,911	35,160
Extracurricular Activities	214,680	227,353
Debt Service	729,643	1,896,857
Total Disbursements	<u>12,811,194</u>	<u>13,778,423</u>
Increase in Net Cash Position	580,104	816,102
Net Cash Position, Beginning of Year	2,520,069	1,703,967
Net Cash Position, End of Year	<u>\$3,100,173</u>	<u>\$2,520,069</u>

Total receipts decreased in fiscal year 2015. Proceeds of note/bond sales and premium on debt issues decreased by \$791,802 due to a one year note being converted into a bond issue during the previous fiscal year. Interest earnings increased by \$2,473 due to an increase in the District's bank balances and investments. Property and other local taxes increased \$250,324 mainly due to an increase in real estate taxes and a slight increase in personal property taxes.

Total disbursements decreased in fiscal year 2015 by \$967,229. The most dramatic changes can be attributed to debt service disbursements which decreased \$1,167,214 and instructional disbursements which increased \$346,730. Instructional disbursements increased primarily due to an increase in special instruction disbursements in relation to the purchased services and the daily costs of teacher and student interaction.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 two 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 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Instruction	\$ 7,151,542	\$ 5,587,137	\$ 6,804,812	\$ 5,114,328
Support Services:				
Pupil and Instructional Staff	958,849	820,677	1,176,265	731,003
Board of Education, Administration and Fiscal	1,281,992	1,134,895	1,305,686	1,111,841
Operation of Maintenance and Plant	1,139,709	1,139,549	940,547	939,710
Pupil Transportation	755,520	744,575	744,847	732,241
Central	156,741	156,741	255,957	225,957
Food Service	389,607	(19,195)	390,939	(29,646)
Other non-instructional services	32,911	32,911	35,160	35,160
Extracurricular Activities	214,680	91,240	227,353	106,227
Debt Service	729,643	729,643	1,896,857	1,896,857
Total	\$ 12,811,194	\$ 10,418,173	\$ 13,778,423	\$ 10,863,678

The District Funds

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts of \$13,390,175 and cash disbursements of \$12,612,217.

The general fund cash balance increased by \$476,053 primarily due to an increase in property tax receipts.

The bond retirement fund cash balance increased by \$283,544 due to an increase in property tax revenue and a decrease in debt service disbursements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 2015, the District amended its general fund budget several times to reflect changing circumstances. Budgeted receipts increased \$655,451 from the original to final and decreased \$565 from the final to actual. Budgeted disbursements and other financing uses decreased \$259,342 from the original to final and decreased \$51,165 from the final to actual.

Debt

At June 30, 2015 the District had \$11,424,986 in bonds outstanding with \$392,262 due within one year. See Note 9 for more information about the District's debt.

Current Financial Related Activities

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, 2012, and 2013. The Board worked prudently for several years to build a cash balance for situations like this, but the balance has dwindled due to deficit spending for the past seven 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. The District had high staff turnover in 2012-2013, 2013-2014, and 2014-2015. In addition, an elementary K-4 building was closed and the District consolidated to two buildings (K-6) and (7-12). As a result, the District finished 2013-2014 and 2014-2015 with an operating surplus.

Real estate taxes had shown steady increases until 2009. For the past three years revenues had declined or remained stable. Tax revenues increased approximately \$70,000 for 2013, \$12,000 for 2014, and \$250,000 for 2015. 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, until 2013 and 2014. 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 had 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, 2012, and 2013. The District received an additional \$376,000 reduction in state funding in 2012 plus approximately \$72,000 in lost tangible personal property tax reimbursement. State revenues increased approximately \$160,000 for 2014 due to the receipt of casino money and preschool funding being routed through the local school district rather than the local educational service center. State revenues decreased approximately \$28,000 for 2015 due to lower preschool funding being received.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 POSITION - CASH BASIS
JUNE 30, 2015

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,985,474
Cash with fiscal agent	114,699
Total assets.	3,100,173
 Net cash position:	
Restricted for:	
Capital projects	241,274
Debt service.	943,043
Locally funded programs	8,776
Federally funded programs	18,524
Student activities	10,884
Other purposes	92,473
Unrestricted	1,785,199
Total net cash position.	\$ 3,100,173

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, 2015

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Cash Position</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 3,205,342	\$ 586,306	\$ 2,331	\$ (2,616,705)
Special	1,533,253	77,892	796,367	(658,994)
Vocational	192,331	-	25,117	(167,214)
Other	2,220,616	-	76,392	(2,144,224)
Support services:				
Pupil	734,406	-	70,715	(663,691)
Instructional staff	224,443	-	67,457	(156,986)
Board of education	17,233	-	-	(17,233)
Administration	939,853	-	147,097	(792,756)
Fiscal	324,906	-	-	(324,906)
Operations and maintenance	1,139,709	160	-	(1,139,549)
Pupil transportation	755,520	4,988	5,957	(744,575)
Central	156,741	-	-	(156,741)
Operation of non-instructional services:				
Other non-instructional services	32,911	-	-	(32,911)
Food service operations	389,607	145,058	263,744	19,195
Extracurricular activities	214,680	118,057	5,383	(91,240)
Debt service:				
Principal retirement	95,570	-	-	(95,570)
Interest and fiscal charges	634,073	-	-	(634,073)
Total governmental activities	\$ 12,811,194	\$ 932,461	\$ 1,460,560	(10,418,173)
General receipts:				
Property taxes levied for:				
General purposes				4,679,775
Debt service				892,681
Capital outlay				608,734
Grants and entitlements not restricted to specific programs				4,753,552
Investment earnings				8,267
Miscellaneous				55,268
Total general receipts				10,998,277
Change in net cash position				580,104
Net cash position at beginning of year				2,520,069
Net cash position at end of year				\$ 3,100,173

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, 2015

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,670,500	\$ 943,043	\$ 371,931	\$ 2,985,474
Total assets	\$ 1,670,500	\$ 943,043	\$ 371,931	\$ 2,985,474
Fund cash balances:				
Restricted:				
Debt service	\$ -	\$ 943,043	\$ -	\$ 943,043
Capital improvements	-	-	241,274	241,274
Food service operations	-	-	92,473	92,473
Special education	-	-	3,769	3,769
Targeted academic assistance	-	-	9,729	9,729
Other purposes	-	-	13,802	13,802
Extracurricular	-	-	10,884	10,884
Committed:				
Student and staff support	13,090	-	-	13,090
Other purposes	10,748	-	-	10,748
Assigned:				
Student instruction	5,954	-	-	5,954
Student and staff support	63,702	-	-	63,702
School supplies	57,107	-	-	57,107
Unassigned	1,519,899	-	-	1,519,899
Total fund cash balances	\$ 1,670,500	\$ 943,043	\$ 371,931	\$ 2,985,474

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND CASH BALANCES TO
NET POSITION - CASH BASIS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

Total governmental fund balances	\$ 2,985,474
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*Amounts reported for governmental activities on the
statement of net position are different because:*

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities on the statement of net position.

114,699

Net position of governmental activities

\$ 3,100,173

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, 2015

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Property taxes	\$ 4,679,775	\$ 892,681	\$ 608,734	\$ 6,181,190
Tuition	560,434	-	-	560,434
Transportation fees	4,988	-	-	4,988
Earnings on investments	7,135	9	203	7,347
Charges for services	-	-	145,058	145,058
Extracurricular	56,104	-	61,953	118,057
Classroom materials and fees	49,463	-	-	49,463
Rental income	160	-	-	160
Contributions and donations	300	-	4,678	4,978
Contract services	54,301	-	-	54,301
Other local revenues	55,268	-	3,784	59,052
Intergovernmental - state	4,803,878	133,787	99,006	5,036,671
Intergovernmental - federal	89,025	-	1,079,451	1,168,476
Total receipts	<u>10,360,831</u>	<u>1,026,477</u>	<u>2,002,867</u>	<u>13,390,175</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,851,106	-	275,991	3,127,097
Special	1,025,610	-	473,042	1,498,652
Vocational	187,424	-	1,779	189,203
Other	2,138,629	-	78,859	2,217,488
Support services:				
Pupil	649,088	-	72,612	721,700
Instructional staff	152,472	-	68,843	221,315
Board of education	17,233	-	-	17,233
Administration	754,346	-	165,633	919,979
Fiscal	283,140	20,112	18,526	321,778
Operations and maintenance	929,258	-	193,704	1,122,962
Pupil transportation	581,158	-	156,326	737,484
Central	144,039	-	9,574	153,613
Operation of non-instructional services:				
Other non-instructional services	24,508	-	8,403	32,911
Food service operations	-	-	386,479	386,479
Extracurricular activities	146,767	-	67,913	214,680
Debt service:				
Principal retirement	-	95,570	-	95,570
Interest and fiscal charges	-	627,251	6,822	634,073
Total disbursements	<u>9,884,778</u>	<u>742,933</u>	<u>1,984,506</u>	<u>12,612,217</u>
Net change in fund cash balances	476,053	283,544	18,361	777,958
Fund cash balances at beginning of year . . .	<u>1,194,447</u>	<u>659,499</u>	<u>353,570</u>	<u>2,207,516</u>
Fund cash balances at end of year	<u>\$ 1,670,500</u>	<u>\$ 943,043</u>	<u>\$ 371,931</u>	<u>\$ 2,985,474</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES OF GOVERNMENTAL FUNDS - CASH BASIS
TO THE STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net change in fund balances - total governmental funds	\$	777,958
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*Amounts reported for governmental activities in the
statement of activities are different because:*

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities - cash basis. Governmental fund expenditures and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities.

(197,854)

Change in net position of governmental activities	\$	<u>580,104</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 4,257,800	\$ 4,679,775	\$ 4,679,775	\$ -
Tuition.	525,000	560,434	560,434	-
Transportation fees.	3,000	4,988	4,988	-
Earnings on investments	5,000	7,700	7,135	(565)
Extracurricular.	52,500	54,246	54,246	-
Classroom materials and fees	30,500	24,771	24,771	-
Rental income	500	160	160	-
Contributions and donations	-	300	300	-
Contract services.	35,000	54,301	54,301	-
Other local revenues	20,000	50,173	50,173	-
Intergovernmental - state	4,720,000	4,803,878	4,803,878	-
Intergovernmental - federal	25,000	89,025	89,025	-
Total receipts	<u>9,674,300</u>	<u>10,329,751</u>	<u>10,329,186</u>	<u>(565)</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	2,915,462	2,828,051	2,827,187	864
Special.	1,058,479	1,026,743	1,026,731	12
Vocational.	195,033	189,185	188,524	661
Other.	2,205,181	2,139,065	2,138,629	436
Support services:				
Pupil.	672,113	651,962	650,383	1,579
Instructional staff	158,581	153,826	153,566	260
Board of education	17,822	17,288	17,288	-
Administration.	787,879	764,257	760,560	3,697
Fiscal	297,335	288,420	286,141	2,279
Operations and maintenance.	1,004,432	974,317	955,634	18,683
Pupil transportation	617,295	598,787	595,198	3,589
Central.	153,951	149,335	144,039	5,296
Operation of non-instructional services:				
Other non-instructional services.	25,303	24,544	24,508	36
Extracurricular activities.	160,182	155,379	141,606	13,773
Total disbursements.	<u>10,269,048</u>	<u>9,961,159</u>	<u>9,909,994</u>	<u>51,165</u>
Excess (deficiency) of receipts over (under) disbursements.	<u>(594,748)</u>	<u>368,592</u>	<u>419,192</u>	<u>50,600</u>
Other financing uses:				
Transfers (out).	-	(48,547)	(48,547)	-
Total other financing uses	<u>-</u>	<u>(48,547)</u>	<u>(48,547)</u>	<u>-</u>
Net change in fund cash balance	(594,748)	320,045	370,645	50,600
Fund cash balance at beginning of year . . .	1,105,954	1,105,954	1,105,954	-
Prior year encumbrances appropriated . . .	54,048	54,048	54,048	-
Fund cash balance at end of year	<u>\$ 565,254</u>	<u>\$ 1,480,047</u>	<u>\$ 1,530,647</u>	<u>\$ 50,600</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
JUNE 30, 2015

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash with fiscal agent	\$ 114,699
Total assets.	<u>114,699</u>
Net position:	
Unrestricted.	<u>114,699</u>
Total net position.	<u><u>\$ 114,699</u></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 BALANCE
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
Operating receipts:	
Charges for services	\$ 1,908,946
Total operating receipts	<u>1,908,946</u>
Operating disbursements:	
Claims	<u>2,107,923</u>
Total operating disbursements.	<u>2,107,923</u>
Operating income	<u>(198,977)</u>
Nonoperating receipts:	
Interest revenue	<u>1,123</u>
Total nonoperating receipts.	<u>1,123</u>
Change in net position	(197,854)
Net position at beginning of year.	<u>312,553</u>
Net position at end of year	<u>\$ 114,699</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
JUNE 30, 2015

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 41,719
Total assets.	\$ 41,719
Net cash position:	
Held for student activities	\$ 41,719
Total net cash position.	\$ 41,719

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

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 Board controls the Local District staffed by 63 certified teaching personnel, 46 non-certified support personnel and 9 administrative personnel to provide services to approximately 1,281 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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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 service, 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 Governing 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 META Solutions which is a jointly governed organization. Information about this organization is presented in Note 11 to the basic financial statements. The District is also a member of three insurance purchasing pools which are also described in Note 11 to the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

C. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the District as a whole. The statements include all funds of the District except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of cash receipts and disbursements.

The Statement of Net Position 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

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the District's major governmental funds:

General Fund: The General Fund is the primary operating fund of the District and is 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.

Bond Retirement 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 (a) financial resources that are restricted to expenditures for all construction related disbursements and permanent improvement disbursements, and (b) specific revenue sources that are restricted to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund: The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical and prescription drug benefits to employees.

FIDUCIARY FUNDS

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 fund is an agency fund. Agency funds are custodial in nature (assets equal net cash position) and do not involve measurement of results of operations. The District's agency fund accounts for student 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The 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 July 1, 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

During fiscal year 2015, investments were limited to 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, 2015.

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 2015 amounted to \$7,135, which includes \$3,743 assigned from other funds.

F. Net Cash Position

Net cash position is 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 operations.

The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. As of June 30, 2015, there was no net cash position restricted by enabling legislation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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 receipts 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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-employment health care benefits.

N. Fund Cash 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 cash 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 cash 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 cash 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 cash 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 cash 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 cash 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 cash balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund cash balance is available. Similarly, within unrestricted fund cash 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 cash balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

P. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position / fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

B. Change in Accounting Principles

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 effected the District's pension plan disclosures, as presented in Note 7 to the financial statements, and added other information which is presented on pages 47 - 53.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The implementation of GASB Statement No. 71 did not have an effect on the financial statements of the District.

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.

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 items (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);

**EAST KNOX LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2015, the District had \$350 in undeposited cash on hand which is included in the fund balance.

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2015 was \$114,699.

C. Deposits

At June 30, 2015, the carrying amount of the District's deposits was \$2,986,653. Of the District's \$3,157,719 bank balance, \$3,051,584 was covered by federal depository insurance and the remaining balance of \$106,135 was exposed to custodial credit risk as discussed below.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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.

D. Investments

Investments are reported at cash value. As of June 30, 2015, the district had the following investments:

	<u>Carrying Value</u>	<u>% of Investment Total</u>	<u>Maturities 6 months or less</u>
STAR Ohio	\$ 40,190	100%	\$ 40,190

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.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the 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.

E. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash as reported on the statement of net position as of June 30, 2015:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 2,986,653
Investments	40,190
Cash with fiscal agent	114,699
Cash on hand	350
Total	<u>\$ 3,141,892</u>
 <u>Cash per statement of net position</u>	
Governmental activities	\$ 3,100,173
Agency fund	41,719
Total	<u>\$ 3,141,892</u>

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 and public utility property. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, 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 revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, 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.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 5 - PROPERTY TAXES (Continued)

The District receives property taxes from Knox, Coshocton and Licking Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 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 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 238,387,050	97.24	\$ 261,828,510	97.41
Public utility personal	<u>6,773,960</u>	<u>2.76</u>	<u>6,956,310</u>	<u>2.59</u>
Total	<u>\$ 245,161,010</u>	<u>100.00</u>	<u>\$ 268,784,820</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$42.21		\$42.03	

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 July 1, 2014 through June 30, 2015, the District contracted with Ohio School Plan and Hylant Administrative Services for property and general liability coverage. There was a \$1,000 deductible and \$41,194,421 limit.

The District has professional liability insurance with Ohio School Plan. Professional liability protection was set at \$4,000,000 per single occurrence limit and \$6,000,000 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.

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.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 6 - RISK MANAGEMENT (Continued)

C. Employee Group Medical and Prescription Drug Insurance

Effective fiscal year 2014, the District offered Medical and prescription drug insurance to all employees through a self-insurance internal service fund. The District is a member of The Jefferson Health Plan, an insurance purchasing pool, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the District's behalf.

NOTE 7 - PENSION PLANS

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description - The District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$181,897 for fiscal year 2015.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS Ohio. 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 includes financial statements, required supplementary information and detailed information about STRS Ohio's fiduciary net position. That report can 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 Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$488,282 for fiscal year 2015.

Net Pension Liability

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportionate share of the net pension liability	\$2,406,883	\$8,248,154	\$10,655,037
Proportion of the net pension liability	0.04755800%	0.03391028%	

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.75 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$3,433,907	\$2,406,883	\$1,543,067

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 7 - PENSION PLANS (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$11,808,131	\$8,248,154	\$5,237,611

**EAST KNOX LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

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 monthly premium for calendar year 2014 (the latest information available) was \$104.90 for most participants, but could be as high as \$335.70 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 2015, 0.82 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 2015, the actuarially determined amount was \$20,450.

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, 2015, 2014 and 2013 were \$34,578, \$27,005 and \$18,953, respectively; 89.57 percent has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2015, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2015, 2014, and 2013 were \$9,615, \$10,522 and \$10,998, respectively; 89.57 percent has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

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 2015, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$36,167 and \$39,944, respectively; 100 percent has been contributed for fiscal years 2014 and 2013.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2015 were as follows:

	Outstanding June 30, 2014	Additions	Deductions	Outstanding June 30, 2015	Due in One Year
General Obligation Bonds:					
Series 2004					
Serial 1.5%-4.42% \$3,110,000	\$ 1,015,000	\$ -	\$ -	\$ 1,015,000	\$ 250,000
Capital Appreciation \$180,000	85,570	-	(85,570)	-	-
Series 2007					
Serial 4% \$5,795,000	5,515,000	-	(5,000)	5,510,000	-
Capital Appreciation \$259,986	259,986	-	-	259,986	137,262
Term 4%-4.125% \$3,895,000	3,895,000	-	-	3,895,000	-
School Facilities Construction and Improvement Bonds - Series 2014					
Term 3.25%-5.5% \$750,000	750,000	-	(5,000)	745,000	5,000
	<u>\$ 11,520,556</u>	<u>\$ -</u>	<u>\$ (95,570)</u>	<u>\$ 11,424,986</u>	<u>\$ 392,262</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

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 matured December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. The bonds will be retired through the bond retirement fund.

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 accrued value of these bonds at June 30, 2015 is \$653,722. The bonds will be retired through the bond retirement fund.

C. School Facilities Construction and Improvement Bonds - Series 2014

This issuance consisted of term bonds issued on January 22, 2014. The bonds mature at \$145,000, \$350,000 and \$255,000 on December 1, 2020, 2025 and 2028, respectively. The rates on these bonds range from 3.25% to 5.50%. The bonds will be retired through the bond retirement fund.

The annual requirement to amortize all bonds outstanding as of June 30, 2015 is as follows:

Year	Current Interest and Term Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 255,000	\$ 315,422	\$ 570,422	\$ 137,262	\$ 227,738	\$ 365,000
2017	260,000	442,548	702,548	122,724	242,276	365,000
2018	625,000	424,757	1,049,757	-	-	-
2019	640,000	399,112	1,039,112	-	-	-
2020	455,000	377,200	832,200	-	-	-
2021 - 2025	2,575,000	1,587,895	4,162,895	-	-	-
2026 - 2030	3,045,000	996,557	4,041,557	-	-	-
2031 - 2035	3,310,000	351,896	3,661,896	-	-	-
Total	<u>\$ 11,165,000</u>	<u>\$ 4,895,387</u>	<u>\$ 16,060,387</u>	<u>\$ 259,986</u>	<u>\$ 470,014</u>	<u>\$ 730,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2015, are a voted debt margin of \$13,708,691 (including available funds of \$943,043) and an unvoted debt margin of \$268,785.

NOTE 10 - 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, 2014	\$ -
Current year set-aside requirement	185,228
Current year offsets	<u>(185,228)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2016	<u>\$ -</u>
Set-aside balance June 30, 2015	<u>\$ -</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

A. Jointly Governed Organization

The District is a participant in the META Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. During fiscal year 2015, the District paid META Solutions \$14,027 for services. Financial information can be obtained from Scott Armstrong, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

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.

The Jefferson Health Plan

The District is a participant with several other school districts in an insurance purchasing pool operated through The Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing a cooperative program to administer medical, prescription, vision, and dental benefits for employees and dependents of participating entities. The Jefferson Health Plan is governed by a Board of Directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

NOTE 12 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015

NOTE 12 - CONTINGENCIES (Continued)

B. Litigation

The District is involved in no material litigation as either a plaintiff or defendant.

NOTE 13 - 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 statement of receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) 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 outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

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

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ 370,645
Funds budgeted elsewhere **	47,378
Adjustment for encumbrances	<u>58,030</u>
Cash basis	<u>\$ 476,053</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 14 - 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 fund	\$ 58,968
Other governmental	<u>65,508</u>
Total	<u>\$ 124,476</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

NOTE 15 - FISCAL EMERGENCY

On February 5, 2015, the District was declared into fiscal emergency by the Auditor of State as defined by the Ohio Revised Code Section 3316.03(B)(3). In accordance with the law, a five-member Financial Planning and Supervision Commission will be established to oversee the financial affairs of the District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management of their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Knox County Auditor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the District must be in accordance with the plan. The recovery plan was adopted on June 29, 2015.

OTHER INFORMATION - NET PENSION LIABILITY

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

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2014	2013
District's proportion of the net pension liability	0.04755800%	0.04755800%
District's proportionate share of the net pension liability	\$ 2,406,883	\$ 2,828,122
District's covered-employee payroll	\$ 1,395,902	\$ 1,623,121
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.42%	174.24%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2014	2013
District's proportion of the net pension liability	0.03391028%	0.33910280%
District's proportionate share of the net pension liability	\$ 8,248,154	\$ 9,825,147
District's covered-employee payroll	\$ 3,731,208	\$ 4,301,692
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	221.06%	228.40%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 181,897	\$ 193,472	\$ 224,640	\$ 227,947	\$ 250,521
Contributions in relation to the contractually required contribution	<u>(181,897)</u>	<u>(193,472)</u>	<u>(224,640)</u>	<u>(227,947)</u>	<u>(250,521)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 1,380,099	\$ 1,395,902	\$ 1,623,121	\$ 1,694,773	\$ 1,993,007
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 294,160	\$ 242,565	\$ 222,635	\$ 219,408	\$ 155,016
<u>(294,160)</u>	<u>(242,565)</u>	<u>(222,635)</u>	<u>(219,408)</u>	<u>(155,016)</u>
<u>\$ -</u>				
\$ 2,172,526	\$ 2,465,091	\$ 2,267,159	\$ 2,054,382	\$ 1,465,180
13.54%	9.84%	9.82%	10.68%	10.58%

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

SCHEDULES OF OTHER INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 488,282	\$ 485,057	\$ 559,220	\$ 572,876	\$ 596,120
Contributions in relation to the contractually required contribution	<u>(488,282)</u>	<u>(485,057)</u>	<u>(559,220)</u>	<u>(572,876)</u>	<u>(596,120)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 3,487,729	\$ 3,731,208	\$ 4,301,692	\$ 4,406,738	\$ 4,585,538
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 678,149	\$ 689,858	\$ 652,147	\$ 637,121	\$ 512,939
<u>(678,149)</u>	<u>(689,858)</u>	<u>(652,147)</u>	<u>(637,121)</u>	<u>(512,939)</u>
<u>\$ -</u>				
\$ 5,216,531	\$ 5,306,600	\$ 5,016,515	\$ 4,900,931	\$ 3,945,685
13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO OTHER INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

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SUPPLEMENTARY DATA

EAST KNOX LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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:				
(C) (D) School Breakfast Program	10.553	2015	\$ 82,177	\$ 82,177
(C) (D) National School Lunch Program	10.555	2015	176,741	176,741
(D) (E) National School Lunch Program - Food Donation	10.555	2015	33,827	33,827
Total National School Lunch Program			<u>210,568</u>	<u>210,568</u>
Total U.S. Department of Agriculture and Child Nutrition Cluster			<u>292,745</u>	<u>292,745</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010	2014	21,428	43,654
Title I Grants to Local Educational Agencies	84.010	2015	316,572	306,844
Total Title I Grants to Local Educational Agencies			<u>338,000</u>	<u>350,498</u>
Special Education_Grants to States	84.027	2014	1,541	15,207
Special Education_Grants to States	84.027	2015	232,943	229,174
Total Special Education_Grants to States			<u>234,484</u>	<u>244,381</u>
(F) Fund for the Improvement of Education	84.215	2014	33,130	33,130
Twenty-First Century Community Learning Centers	84.287	2014	9,298	20,266
Twenty-First Century Community Learning Centers	84.287	2015	173,754	168,728
Total Twenty-First Century Community Learning Centers			<u>183,052</u>	<u>188,994</u>
Rural Education	84.358	2015	20,788	20,788
Improving Teacher Quality State Grants	84.367	2015	11,079	11,079
Total U.S. Department of Education			<u>820,533</u>	<u>848,870</u>
Total Federal Financial Assistance			<u>\$ 1,113,278</u>	<u>\$ 1,141,615</u>

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

- (A) OAKS did not assign pass-through numbers for fiscal year 2015.
- (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) Grant was received directly from the federal agency.



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

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

To the Members of the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2015, and the related notes to the financial statements, which collectively comprise the East Knox Local School District's basic financial statements and have issued our report thereon dated October 21, 2015, wherein we noted the East Knox Local School District uses a special purpose framework other than generally accepted accounting principles. Furthermore, we noted as described in Note 15, on February 5, 2015, the Auditor of State declared the East Knox Local School District to be in a state of fiscal emergency as defined by Ohio Revised Code Section 3316.03(B)(3).

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the East Knox Local School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the East Knox Local School District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the East Knox Local School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Members of the Board of Education
East Knox Local School District

Compliance and Other Matters

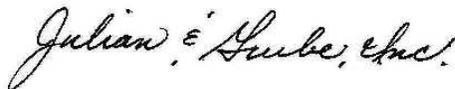
As part of reasonably assuring whether the East Knox Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 2015-001.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the East Knox Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the East Knox Local School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
October 21, 2015



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Serving Ohio Local Governments

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Independent Auditor's Report on Compliance With Requirements Applicable to The Major Federal Program and on Internal Controls Over Compliance Required by OMB Circular A-133

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

To the Members of the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the East Knox Local School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the East Knox Local School District's major federal program for the fiscal year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings and responses identifies the East Knox Local School District's major federal program.

Management's Responsibility

The East Knox Local School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the East Knox Local School District's compliance for the East Knox Local School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the East Knox Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the East Knox Local School District's major program. However, our audit does not provide a legal determination of the East Knox Local School District's compliance.

Opinion on the Major Federal Program

In our opinion, the East Knox Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2015.

Members of the Board of Education
East Knox Local School District

Report on 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 applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the East Knox Local School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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.

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's applicable 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
October 21, 2015

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<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 Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Title I Grants to Local Educational Agencies - CFDA #84.010
<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, 2015**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2015-001

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, 2015 and made the decision that the significant dollars saved, outweighed the benefit received.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2015**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; <u>Finding no Longer Valid</u>
2014-001	<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 2015-001

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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
JANUARY 12, 2016**