

**Dave Yost • Auditor of State**



**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2017**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	19
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	20
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	23
Statement of Net Position Proprietary Fund.....	24
Statement of Revenues, Expenses and Changes in Net Position Proprietary Fund.....	25
Statement of Cash Flows Proprietary Fund.....	26
Statement of Fiduciary Net Position Fiduciary Funds.....	27
Notes to the Basic Financial Statements.....	28

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2017**

**TABLE OF CONTENTS  
(Continued)**

<b>TITLE</b>	<b>PAGE</b>
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability (SERS) .....	66
Schedule of the District's Proportionate Share of the Net Pension Liability (STRS) .....	67
Schedule of District Contributions (SERS) .....	68
Schedule of District Contributions (STRS) .....	70
Notes to Required Supplementary Information .....	72
Schedule of Expenditures of Federal Awards .....	73
Notes to the Schedule of Expenditures of Federal Awards .....	74
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	75
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	77
Schedule of Findings .....	79



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To 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 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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 accounting principles generally accepted in the United States of America; this includes 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 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 District's internal control. Accordingly, we express no such 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 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 27, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The management's 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, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position of governmental activities increased \$1,983,305 which represents a 29.93% increase over the 2016 deficit balance of \$6,626,083.
- General revenues accounted for \$12,424,290 in revenue or 84.83% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions and capital grants and contributions accounted for \$2,221,575 or 15.17% of total revenues of \$14,645,865.
- The District had \$12,662,560 in expenses related to governmental activities; only \$2,221,575 of these expenses were offset by program specific charges for services and sales, grants and contributions and capital grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,424,290 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$11,179,629 in revenues and other financing sources and \$9,934,277 in expenditures. During fiscal 2017, the general fund's fund balance increased \$1,245,352 from \$3,452,476 to \$4,697,828.
- The bond retirement fund had \$10,682,606 in revenues and other financing sources and \$10,797,171 in expenditures and other financing uses. During fiscal 2017, the bond retirement fund's fund balance decreased \$114,565 from \$1,176,572 to \$1,062,007.

**Using These Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an 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 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. In the case of the District, the general fund and the bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

**Reporting the District as a Whole**

***Statement of Net Position and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net position and statement of activities can be found on pages 17-18 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 13. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the bond retirement fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

***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 medical, vision, dental and prescription benefits self-insurance. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position on page 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-64 of this report.

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 65 through 71 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole.

The table below provides a summary of the District's net position at June 30, 2017 and June 30, 2016.

	<b>Net Position</b>	
	Governmental Activities 2017	Governmental Activities 2016
<b><u>Assets</u></b>		
Current and other assets	\$ 13,742,395	\$ 10,863,657
Capital assets, net	<u>10,553,721</u>	<u>11,000,718</u>
Total assets	<u>24,296,116</u>	<u>21,864,375</u>
<b><u>Deferred outflows of resources</u></b>		
Deferred charges on refunding	78,820	-
Pension	<u>2,269,181</u>	<u>1,047,740</u>
Total deferred outflows of resources	<u>2,348,001</u>	<u>1,047,740</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,042,487	1,003,191
Long-term liabilities	<u>23,976,477</u>	<u>23,067,312</u>
Total liabilities	<u>25,018,964</u>	<u>24,070,503</u>
<b><u>Deferred inflows of resources</u></b>		
Property taxes levied for the next fiscal year	5,107,494	4,030,841
Pension	<u>1,160,437</u>	<u>1,436,854</u>
Total deferred inflows of resources	<u>6,267,931</u>	<u>5,467,695</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	(382,360)	(184,223)
Restricted	1,991,036	1,580,863
Unrestricted (deficit)	<u>(6,251,454)</u>	<u>(8,022,723)</u>
Total net position	<u>\$ (4,642,778)</u>	<u>\$ (6,626,083)</u>

The District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71 "Pension Transition for Contributions made subsequent to the measurement date—an Amendment of GASB Statement No.68," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$4,642,778.

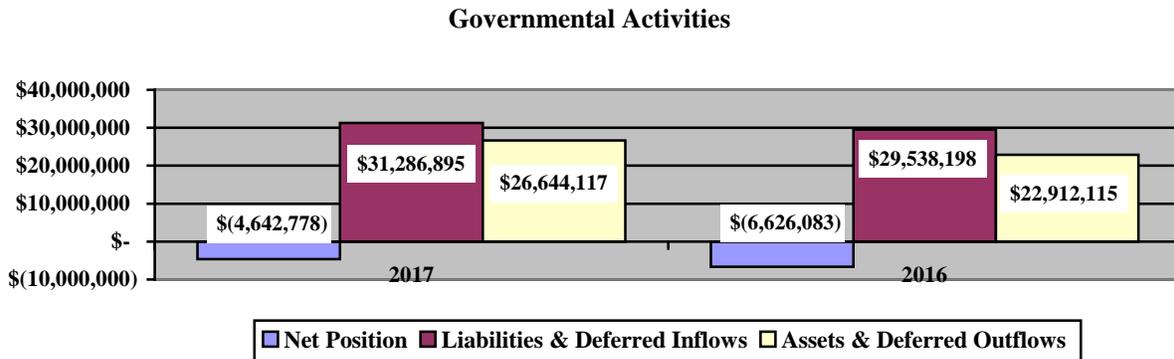
**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

At year end, capital assets represented 43.44% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2017, was (\$382,360). These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$1,991,036, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net position.

The graph below shows the District's assets, liabilities and net position at June 30, 2017 and 2016.



The table below shows the change in net position for fiscal years 2017 and 2016.

	<b>Change in Net Position</b>	
	Governmental Activities 2017	Governmental Activities 2016
	<u>2017</u>	<u>2016</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 849,659	\$ 858,883
Operating grants and contributions	1,351,593	1,343,031
Capital grants and contributions	20,323	-
General revenues:		
Property taxes	7,593,304	6,375,530
Grants and entitlements	4,769,958	4,732,248
Investment earnings	35,982	13,285
Miscellaneous	25,046	32,267
<b>Total revenues</b>	<b>\$ 14,645,865</b>	<b>\$ 13,355,244</b>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,193,491	\$ 2,886,673
Special	1,556,127	1,469,762
Vocational	202,374	187,955
Other	2,415,085	2,166,018
Support services:		
Pupil	588,509	616,813
Instructional staff	203,675	181,835
Board of education	13,455	14,965
Administration	877,771	898,663
Fiscal	363,448	335,863
Operations and maintenance	989,990	925,587
Pupil transportation	793,560	573,267
Central	144,107	148,753
Operation of non-instructional services:		
Other non-instructional services	24,275	23,609
Food service operations	526,904	488,866
Extracurricular activities	239,322	229,678
Interest and fiscal charges	<u>530,467</u>	<u>492,207</u>
Total expenses	<u>12,662,560</u>	<u>11,640,514</u>
Change in net position	1,983,305	1,714,730
Net position at beginning of year	<u>(6,626,083)</u>	<u>(8,340,813)</u>
Net position at end of year	<u><u>\$ (4,642,778)</u></u>	<u><u>\$ (6,626,083)</u></u>

**Governmental Activities**

Net position of the District's governmental activities increased \$1,983,305 over the 2016 balance. Total governmental expenses of \$12,662,560 were offset by program revenues of \$2,221,575 and general revenues of \$12,424,290. Program revenues supported 17.54% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 84.41% of total governmental revenue.

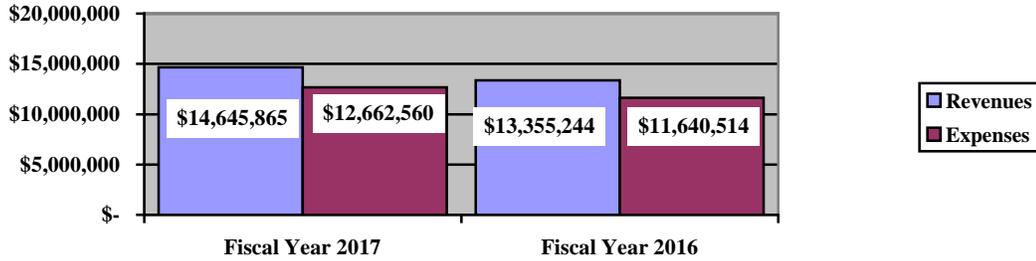
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,367,077 or 58.18% of total governmental expenses for fiscal year 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2017 and 2016.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,193,491	\$ 2,692,915	\$ 2,886,673	\$ 2,407,614
Special	1,556,127	670,205	1,469,762	555,911
Vocational	202,374	173,655	187,955	162,248
Other	2,415,085	2,361,543	2,166,018	2,116,322
Support services:				
Pupil	588,509	587,436	616,813	607,096
Instructional staff	203,675	163,203	181,835	148,095
Board of education	13,455	13,455	14,965	14,965
Administration	877,771	763,977	898,663	787,817
Fiscal	363,448	362,758	335,863	335,863
Operations and maintenance	989,990	985,663	925,587	925,507
Pupil transportation	793,560	775,678	573,267	571,120
Central	144,107	142,871	148,753	148,753
Operation of non-instructional services:				
Other non-instructional services	24,275	24,275	23,609	23,609
Food service operations	526,904	81,627	488,866	29,675
Extracurricular activities	239,322	111,257	229,678	111,798
Interest and fiscal charges	530,467	530,467	492,207	492,207
<b>Total expenses</b>	<u>\$ 12,662,560</u>	<u>\$ 10,440,985</u>	<u>\$ 11,640,514</u>	<u>\$ 9,438,600</u>

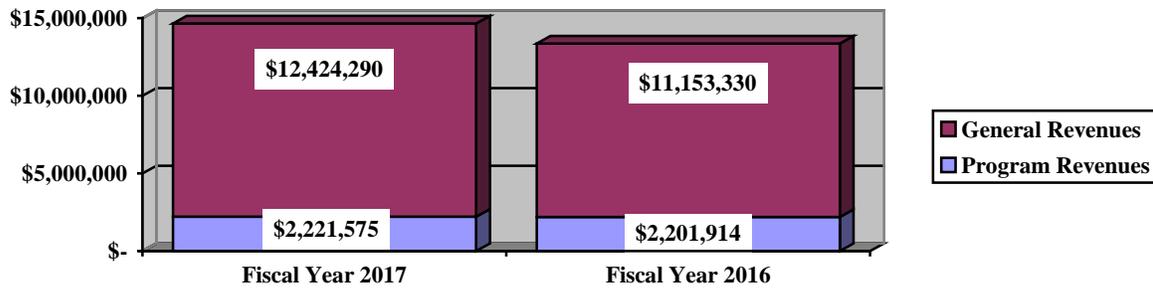
**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY, OHIO**

MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent; 80.06% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.46%. The District’s taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District’s students.

The graph below presents the District’s governmental activities revenue for fiscal years 2017 and 2016.

**Governmental Activities - General and Program Revenues**



**The District’s Funds**

The District’s governmental funds reported a combined fund balance of \$6,425,924, which is a higher balance than last year’s total balance of \$5,084,566. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance <u>June 30, 2017</u>	Fund Balance <u>June 30, 2016</u>	Increase (Decrease)
General	\$ 4,697,828	\$ 3,452,476	\$ 1,245,352
Bond retirement	1,062,007	1,176,572	(114,565)
Other governmental	<u>666,089</u>	<u>455,518</u>	<u>210,571</u>
Total	<u>\$ 6,425,924</u>	<u>\$ 5,084,566</u>	<u>\$ 1,341,358</u>

**General Fund**

The County’s general fund balance increased \$1,245,352. The primary revenue source of the general fund is property tax revenues. Property tax revenues represent \$5,578,651 or 49.91% of general fund revenues. Intergovernmental revenue makes up \$4,883,964 or 43.70% of the general fund revenues. These primarily consist of governmental revenues from the State.

The largest expenditure of the general fund is instruction which total \$6,412,484 or 64.55% of general fund expenditures. Instruction expenditures consist of primarily of District employee wages and benefits.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

	2017 <u>Amount</u>	2016 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 5,578,651	\$ 5,076,196	\$ 502,455	9.90 %
Tuition	535,341	528,859	6,482	1.23 %
Earnings on investments	34,690	12,229	22,461	183.67 %
Intergovernmental	4,883,964	4,885,071	(1,107)	(0.02) %
Other revenues	<u>143,983</u>	<u>165,693</u>	<u>(21,710)</u>	(13.10) %
Total	<u>\$ 11,176,629</u>	<u>\$ 10,668,048</u>	<u>\$ 508,581</u>	4.77 %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,412,484	\$ 6,021,266	\$ 391,218	6.50 %
Support services	3,339,784	3,430,812	(91,028)	(2.65) %
Operation of non-instructional services	25,314	24,394	920	3.77 %
Extracurricular activities	156,695	154,781	1,914	1.24 %
Debt service	<u>-</u>	<u>14,302</u>	<u>(14,302)</u>	(100.00) %
Total	<u>\$ 9,934,277</u>	<u>\$ 9,645,555</u>	<u>\$ 288,722</u>	2.99 %

***Bond Retirement Fund***

The bond retirement fund had \$10,682,606 in revenues and other financing sources and \$10,797,171 in expenditures and other financing uses. During fiscal 2017, the bond retirement fund's fund balance decreased \$114,565 from \$1,176,572 to \$1,062,007.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on 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 2017, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$11,136,925, which was higher than the original budgeted revenues and other financing sources of \$10,143,390. Actual revenues and other financing sources for fiscal 2017 were \$11,134,015 which was \$2,910 lower than the final budgeted revenues.

General fund original appropriations and other financing uses of \$10,264,089 were increased to \$10,440,954 in the final budget. The actual budget basis expenditures for fiscal year 2017 totaled \$10,398,687, which was \$42,267 less than the final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2017, the District had \$10,553,721 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2017 balances compared to the 2016:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2017	2016
Land	\$ 160,330	\$ 160,330
Land improvements	504,696	621,227
Building and improvements	8,879,891	9,221,179
Furniture and equipment	391,821	427,184
Vehicles	616,983	570,798
Total	\$ 10,553,721	\$ 11,000,718

The overall decrease in capital assets of \$446,997 is due to depreciation expense of \$548,082 and net disposals of \$98,593 exceeding capital outlays of \$199,678.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2017, the District had \$10,130,000 in general obligation bonds outstanding. Of this total, \$635,000 is due within one year and \$9,495,000 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal year 2017 compared to 2016.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2017	2016
General obligation bonds	\$ 10,130,000	\$ 11,255,134
Total	\$ 10,130,000	\$ 11,255,134

See Note 9 to the basic financial statements for additional information on the District's debt administration.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

**Current Financial Related Activities**

The most significant issue for the District for the past ten years has been the financial situation. Specifically, the general fund operating funds. 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, 2014-2015, and 2015-2016. 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, 2014-2015, and 2015-2016 with an operating surplus. In November 2016, the district passed a \$1.2 million emergency operating levy. The District started receiving those funds in January 2017 and as a result, finished the fiscal year with an excess of revenues over expenses of \$800,000 and started the new fiscal year with a \$3.2 million cash balance.

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, \$250,000 for 2015, and \$214,000 for 2016. 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 had seen a large amount of delinquencies in the past few years and high rate of foreclosures in the area, but property values and sales have started to pick back up recently.

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. State revenues decreased by \$37,000 in 2016 and \$32,000 in 2017. The District anticipates an additional decrease in state funding with the new Biennial Budget.

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.

**The 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  
JUNE 30, 2017

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 5,050,610
Cash with fiscal agent . . . . .	10,156
Receivables:	
Property taxes . . . . .	8,365,565
Accounts. . . . .	3,495
Intergovernmental . . . . .	214,488
Prepayments . . . . .	77,880
Materials and supplies inventory. . . . .	8,707
Inventory held for resale. . . . .	11,494
Capital assets:	
Nondepreciable capital assets . . . . .	160,330
Depreciable capital assets, net. . . . .	10,393,391
Capital assets, net. . . . .	10,553,721
Total assets. . . . .	24,296,116
 <b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	78,820
Pension - STRS . . . . .	1,661,212
Pension - SERS . . . . .	607,969
Total deferred outflows of resources . . . . .	2,348,001
 <b>Liabilities:</b>	
Accounts payable. . . . .	34,774
Contracts payable. . . . .	1,263
Accrued wages and benefits payable . . . . .	586,632
Intergovernmental payable . . . . .	51,436
Pension obligation payable. . . . .	105,978
Accrued interest payable . . . . .	28,716
Claims payable. . . . .	233,688
Long-term liabilities:	
Due within one year. . . . .	719,415
Due in more than one year:	
Net pension liability . . . . .	12,548,196
Other amounts due in more than one year . . . . .	10,708,866
Total liabilities . . . . .	25,018,964
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	5,107,494
Pension - STRS. . . . .	903,074
Pension - SERS. . . . .	257,363
Total deferred inflows of resources . . . . .	6,267,931
 <b>Net position:</b>	
Net investment in capital assets . . . . .	(382,360)
Restricted for:	
Capital projects . . . . .	695,858
Debt service. . . . .	1,178,667
Locally funded programs . . . . .	10,257
Federally funded programs . . . . .	1,911
Student activities . . . . .	17,140
Other purposes . . . . .	87,203
Unrestricted (deficit) . . . . .	(6,251,454)
Total net position. . . . .	\$ (4,642,778)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,193,491	\$ 498,499	\$ -	\$ 2,077	\$ (2,692,915)
Special . . . . .	1,556,127	67,069	818,853	-	(670,205)
Vocational . . . . .	202,374	-	28,644	75	(173,655)
Other . . . . .	2,415,085	-	53,542	-	(2,361,543)
Support services:					
Pupil . . . . .	588,509	-	836	237	(587,436)
Instructional staff . . . . .	203,675	-	40,472	-	(163,203)
Board of education . . . . .	13,455	-	-	-	(13,455)
Administration . . . . .	877,771	38,931	74,330	533	(763,977)
Fiscal . . . . .	363,448	-	-	690	(362,758)
Operations and maintenance . . . . .	989,990	80	-	4,247	(985,663)
Pupil transportation . . . . .	793,560	1,574	5,222	11,086	(775,678)
Central . . . . .	144,107	-	-	1,236	(142,871)
Operation of non-instructional services:					
Other non-instructional services . . . . .	24,275	-	-	-	(24,275)
Food service operations . . . . .	526,904	134,924	310,353	-	(81,627)
Extracurricular activities . . . . .	239,322	108,582	19,341	142	(111,257)
Interest and fiscal charges . . . . .	530,467	-	-	-	(530,467)
<b>Total governmental activities . . . . .</b>	<b>\$ 12,662,560</b>	<b>\$ 849,659</b>	<b>\$ 1,351,593</b>	<b>\$ 20,323</b>	<b>(10,440,985)</b>

**General revenues:**

Property taxes levied for:	
General purposes . . . . .	6,131,054
Debt service . . . . .	836,011
Capital outlay . . . . .	626,239
Grants and entitlements not restricted	
to specific programs . . . . .	4,769,958
Investment earnings . . . . .	35,982
Miscellaneous . . . . .	25,046
<b>Total general revenues . . . . .</b>	<b>12,424,290</b>
Change in net position . . . . .	1,983,305
<b>Net position at beginning of year . . . . .</b>	<b>(6,626,083)</b>
<b>Net position at end of year . . . . .</b>	<b>\$ (4,642,778)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 3,344,331	\$ 852,499	\$ 553,780	\$ 4,750,610
Receivables:				
Property taxes. . . . .	6,726,678	936,576	702,311	8,365,565
Accounts . . . . .	3,054	-	441	3,495
Interfund loans . . . . .	300,000	-	-	300,000
Intergovernmental. . . . .	147,581	-	66,907	214,488
Prepayments. . . . .	77,132	-	748	77,880
Materials and supplies inventory. . . . .	6,570	-	2,137	8,707
Inventory held for resale. . . . .	-	-	11,494	11,494
Total assets . . . . .	<u>10,605,346</u>	<u>1,789,075</u>	<u>1,337,818</u>	<u>13,732,239</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 33,744	\$ -	\$ 1,030	\$ 34,774
Contracts payable. . . . .	1,263	-	-	1,263
Accrued wages and benefits payable . . . . .	516,374	-	70,258	586,632
Compensated absences payable . . . . .	4,761	-	-	4,761
Intergovernmental payable . . . . .	50,565	-	871	51,436
Pension obligation payable . . . . .	95,712	-	10,266	105,978
Total liabilities. . . . .	<u>702,419</u>	<u>-</u>	<u>82,425</u>	<u>784,844</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	4,089,358	581,692	436,444	5,107,494
Delinquent property tax revenue not available. . . . .	1,062,778	145,376	109,011	1,317,165
Intergovernmental revenue not available. . . . .	42,591	-	43,849	86,440
Miscellaneous revenue not available. . . . .	10,372	-	-	10,372
Total deferred inflows of resources . . . . .	<u>5,205,099</u>	<u>727,068</u>	<u>589,304</u>	<u>6,521,471</u>
<b>Fund balances:</b>				
Nonspendable:				
Materials and supplies inventory. . . . .	6,570	-	2,137	8,707
Prepays. . . . .	77,132	-	748	77,880
Restricted:				
Debt service. . . . .	-	1,062,007	-	1,062,007
Capital improvements . . . . .	-	-	586,847	586,847
Food service operations . . . . .	-	-	84,888	84,888
Targeted academic assistance . . . . .	-	-	10	10
Other purposes. . . . .	-	-	10,257	10,257
Extracurricular. . . . .	-	-	17,140	17,140
Committed:				
Student and staff support . . . . .	24,334	-	-	24,334
Assigned:				
Student instruction . . . . .	4,088	-	-	4,088
Student and staff support. . . . .	46,377	-	-	46,377
School supplies . . . . .	51,836	-	-	51,836
Unassigned (deficit) . . . . .	4,487,491	-	(35,938)	4,451,553
Total fund balances . . . . .	<u>4,697,828</u>	<u>1,062,007</u>	<u>666,089</u>	<u>6,425,924</u>
Total liabilities, deferred inflows and fund balances .	<u>\$ 10,605,346</u>	<u>\$ 1,789,075</u>	<u>\$ 1,337,818</u>	<u>\$ 13,732,239</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2017

<b>Total governmental fund balances</b>		\$ 6,425,924
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,553,721
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 1,317,165	
Accounts receivable	10,372	
Intergovernmental receivable	86,440	
Total		1,413,977
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		(223,532)
Unamortized premiums on bonds issued are not recognized in the funds.		(884,901)
Unamortized amounts on refundings are not recognized in the funds.		78,820
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows/outflows are not reported in governmental funds.		
Deferred outflows - Pension	2,269,181	
Deferred inflows - Pension	(1,160,437)	
Net pension liability	(12,548,196)	
Total		(11,439,452)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(28,716)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(10,130,000)	
Compensated absences	(408,619)	
Total		(10,538,619)
<b>Net position of governmental activities</b>		<b>\$ (4,642,778)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 5,578,651	\$ 786,207	\$ 582,441	\$ 6,947,299
Tuition . . . . .	535,341	-	-	535,341
Transportation fees . . . . .	1,574	-	-	1,574
Earnings on investments . . . . .	34,690	134	256	35,080
Charges for services . . . . .	-	-	134,924	134,924
Extracurricular . . . . .	49,698	-	61,061	110,759
Classroom materials and fees . . . . .	21,617	-	-	21,617
Rental income . . . . .	80	-	-	80
Contributions and donations . . . . .	1,094	-	7,300	8,394
Contract services . . . . .	38,931	-	-	38,931
Other local revenues . . . . .	30,989	-	6,369	37,358
Intergovernmental - state . . . . .	4,787,135	126,538	97,654	5,011,327
Intergovernmental - federal . . . . .	96,829	-	962,443	1,059,272
Total revenues . . . . .	<u>11,176,629</u>	<u>912,879</u>	<u>1,852,448</u>	<u>13,941,956</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,810,834	-	49,970	2,860,804
Special . . . . .	1,043,559	-	479,438	1,522,997
Vocational . . . . .	200,115	-	1,813	201,928
Other . . . . .	2,357,976	-	53,428	2,411,404
Support services:				
Pupil . . . . .	580,283	-	6,708	586,991
Instructional staff . . . . .	145,607	-	40,462	186,069
Board of education . . . . .	13,817	-	-	13,817
Administration . . . . .	763,478	-	87,276	850,754
Fiscal . . . . .	327,040	18,947	16,603	362,590
Operations and maintenance . . . . .	827,835	-	102,194	930,029
Pupil transportation . . . . .	543,120	-	266,763	809,883
Central . . . . .	138,604	-	29,733	168,337
Operation of non-instructional services:				
Other non-instructional services . . . . .	25,314	-	-	25,314
Food service operations . . . . .	-	-	463,328	463,328
Extracurricular activities . . . . .	156,695	-	72,294	228,989
Debt service:				
Principal retirement . . . . .	-	382,724	-	382,724
Interest and fiscal charges . . . . .	-	383,497	-	383,497
Refunding bond issuance costs . . . . .	-	180,677	-	180,677
Accretion on capital appreciation bonds . . . . .	-	242,276	-	242,276
Total expenditures . . . . .	<u>9,934,277</u>	<u>1,208,121</u>	<u>1,670,010</u>	<u>12,812,408</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,242,352</u>	<u>(295,242)</u>	<u>182,438</u>	<u>1,129,548</u>
<b>Other financing sources (uses):</b>				
Premium on refunding bonds . . . . .	-	884,727	-	884,727
Sale of refunding bonds . . . . .	-	8,885,000	-	8,885,000
Sale of assets . . . . .	3,000	-	28,133	31,133
Payment to refunding bond escrow agent . . . . .	-	(9,589,050)	-	(9,589,050)
Total other financing sources (uses) . . . . .	<u>3,000</u>	<u>180,677</u>	<u>28,133</u>	<u>211,810</u>
Net change in fund balances . . . . .	1,245,352	(114,565)	210,571	1,341,358
<b>Fund balances at beginning of year . . . . .</b>	<u>3,452,476</u>	<u>1,176,572</u>	<u>455,518</u>	<u>5,084,566</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 4,697,828</u>	<u>\$ 1,062,007</u>	<u>\$ 666,089</u>	<u>\$ 6,425,924</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Net change in fund balances - total governmental funds** \$ 1,341,358

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	\$ 199,678	
Current year depreciation	(548,082)	
<b>Total</b>		<b>(348,404)</b>

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position. (98,593)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	646,005	
Tuition	8,484	
Extracurricular	(1,033)	
Classroom materials and fees	(1,018)	
Miscellaneous	358	
Intergovernmental	49,955	
<b>Total</b>		<b>702,751</b>

Repayment of bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:

Bonds	382,724	
Accreted interest on capital appreciation bonds	242,276	
<b>Total</b>		<b>625,000</b>

Issuances of bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position. (8,885,000)

Payment to refunding bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net assets. 9,589,050

Premiums on bonds are amortized over the life of the issuance in the statement of activities. (884,727)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities:

(Increase) decrease in accrued interest payable	6,760	
Accreted interest on capital appreciation bonds	(19,866)	
Amortization of bond premiums	50,207	
Amortization of deferred charges	(3,394)	
<b>Total</b>		<b>33,707</b>

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 612,989

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (403,108)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (30,932)

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. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (270,786)

**Change in net position of governmental activities** **\$ 1,983,305**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 4,798,739	\$ 5,580,821	\$ 5,580,821	\$ -
Tuition . . . . .	444,039	493,987	493,987	-
Transportation fees . . . . .	1,952	1,586	1,574	(12)
Earnings on investments . . . . .	12,687	35,700	34,690	(1,010)
Extracurricular . . . . .	51,723	47,000	46,864	(136)
Classroom materials and fees . . . . .	586	600	346	(254)
Rental income . . . . .	195	80	80	-
Contributions and donations . . . . .	488	1,094	1,094	-
Contract services . . . . .	37,085	38,931	38,931	-
Other local revenues . . . . .	24,398	24,400	22,926	(1,474)
Intergovernmental - state . . . . .	4,660,943	4,763,872	4,763,872	-
Intergovernmental - federal . . . . .	58,555	95,854	95,830	(24)
<b>Total revenues . . . . .</b>	<b>10,091,390</b>	<b>11,083,925</b>	<b>11,081,015</b>	<b>(2,910)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,765,708	2,806,340	2,805,440	900
Special . . . . .	1,111,700	1,053,663	1,053,663	-
Vocational . . . . .	198,976	200,308	200,213	95
Other . . . . .	2,258,751	2,368,775	2,367,375	1,400
Support services:				
Pupil . . . . .	625,185	617,003	613,860	3,143
Instructional staff . . . . .	164,171	145,384	145,329	55
Board of education . . . . .	18,520	14,105	13,881	224
Administration . . . . .	836,931	787,490	787,056	434
Fiscal . . . . .	325,532	331,144	329,254	1,890
Operations and maintenance . . . . .	911,181	864,722	840,063	24,659
Pupil transportation . . . . .	627,435	562,982	553,943	9,039
Central . . . . .	189,656	162,925	162,497	428
Other operation of non-instructional services . . . . .	26,461	25,259	25,259	-
Extracurricular activities . . . . .	153,882	150,854	150,854	-
<b>Total expenditures . . . . .</b>	<b>10,214,089</b>	<b>10,090,954</b>	<b>10,048,687</b>	<b>42,267</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(122,699)	992,971	1,032,328	39,357
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	50,000	50,000	50,000	-
Transfers (out) . . . . .	(50,000)	(50,000)	(50,000)	-
Advances (out) . . . . .	-	(300,000)	(300,000)	-
Sale of capital assets . . . . .	2,000	3,000	3,000	-
<b>Total other financing sources (uses) . . . . .</b>	<b>2,000</b>	<b>(297,000)</b>	<b>(297,000)</b>	<b>-</b>
Net change in fund balance . . . . .	(120,699)	695,971	735,328	39,357
<b>Fund balance at beginning of year . . . . .</b>	<b>2,388,078</b>	<b>2,388,078</b>	<b>2,388,078</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>71,089</b>	<b>71,089</b>	<b>71,089</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 2,338,468</b>	<b>\$ 3,155,138</b>	<b>\$ 3,194,495</b>	<b>\$ 39,357</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

	<b>Governmental Activities - Internal Service Fund</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 300,000
Cash with fiscal agent . . . . .	<u>10,156</u>
Total assets . . . . .	<u>310,156</u>
<b>Liabilities:</b>	
Interfund loan payable . . . . .	300,000
Claims payable . . . . .	<u>233,688</u>
Total liabilities . . . . .	<u>533,688</u>
<b>Net position:</b>	
Unrestricted (deficit) . . . . .	<u>(223,532)</u>
Total net position. . . . .	<u><u>\$ (223,532)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 1,948,543
Total operating revenues . . . . .	<u>1,948,543</u>
<b>Operating expenses:</b>	
Claims . . . . .	2,220,487
Total operating expenses. . . . .	<u>2,220,487</u>
Operating loss. . . . .	<u>(271,944)</u>
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	1,158
Total nonoperating revenues. . . . .	<u>1,158</u>
Change in net position . . . . .	(270,786)
<b>Net position at beginning of year . . . . .</b>	<u>47,254</u>
<b>Net position at end of year . . . . .</b>	<u><u>\$ (223,532)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash receipts from charges for services . . . . .	\$ 1,948,543
Cash payments for contractual services . . . . .	<u>(2,149,267)</u>
Net cash used in operating activities . . . . .	<u>(200,724)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from interfund loans . . . . .	<u>300,000</u>
Net cash provided by noncapital financing activities. . . . .	<u>300,000</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>1,158</u>
Net cash provided by investing activities . . . . .	<u>1,158</u>
Net increase in cash and cash equivalents . . . . .	100,434
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>209,722</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 310,156</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss. . . . .	\$ (271,944)
Changes in assets and liabilities: Increase in claims payable . . . . .	<u>71,220</u>
Net cash used in operating activities . . . . .	<u><u>\$ (200,724)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	<b>Agency</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents . . . . .	\$ 51,641
Total assets. . . . .	\$ 51,641
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 83
Held for student activities . . . . .	51,558
Total liabilities . . . . .	\$ 51,641

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, 2017

**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, 40 non-certified support personnel and 8 administrative personnel to provide services to approximately 1,230 students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

META Solutions

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 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 2017, the District paid META Solutions \$24,874 for services. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

*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. Over 300 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.

**B. Fund Accounting**

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, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*GOVERNMENTAL FUNDS*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets and deferred outflows of resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities and deferred inflows of resources are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement 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 FUNDS*

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.

**C. Basis of Presentation - Fund Accounting and Measurement Focus**

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services (premiums). Operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

*Revenues - Exchange and Nonexchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within thirty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. See Note 11 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

See Note 11 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the fund financial statements as expenditures with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the function level within the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriations that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2017, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$34,690, which includes \$11,996 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities 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.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their fair market value. Inventories are recorded on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the consumption method on the government-wide statements and the fund financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	15 - 20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2017, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees at least 50 years of age with 10 years of service or any age with at least 15 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the governmental funds balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is nonspendable by an amount equal to the carrying value of the asset on the fund financial statements.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that; once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, net position liabilities and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance**

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

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

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**N. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2017, neither type of transaction occurred.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**P. Bond Issuance Costs/Unamortized Bond Premium and Discount/Deferred Loss or Gain on Debt Refunding**

On government-wide and fund financial statements, bond issuance costs are expensed in the year they occur.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as a deferred outflow of resources (loss) or deferred inflow of resources (gain) on the statement of net position.

On the governmental fund financial statements, bond issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 9.

**Q. 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.

**R. Fair Value**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**S. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on 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, 2017

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2017, the District has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 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, 2017

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2017 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part-B	\$ 3,365
Title I - disadvantaged children	32,003

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 the 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, 2017, 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, 2017 was \$10,156. This amount is not included in the "deposits" or "investments" reported below.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits**

At June 30, 2017, the carrying amount of all District deposits was \$2,109,253. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, \$38,530 of the District’s bank balance of \$2,131,318 was exposed to custodial risk as discussed below, while \$2,092,788 was covered by the FDIC.

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 deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**D. Investments**

As of June 30, 2017, the District had the following investments and maturities:

<u>Measurement/ Investment type</u>	<u>Measurement value</u>	<u>Investment Maturities 6 months or less</u>
Amortized Cost: STAR Ohio	\$ 2,992,648	\$ 2,992,648

*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:* STAR Ohio carries a rating of AAAM by 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’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit 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’s investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2017:

<u>Measurement/ Investment type</u>	<u>Measurement value</u>	<u>% of Total</u>
Amortized Cost:		
STAR Ohio	\$ 2,992,648	100.00

**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, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,109,253
Cash with fiscal agent	10,156
Investments	2,992,648
Cash on hand	<u>350</u>
Total	<u>\$ 5,112,407</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 5,060,766
Agency fund	<u>51,641</u>
Total	<u>\$ 5,112,407</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2017 consisted of the following interfund loans receivable and payable, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Internal service fund	<u>\$ 300,000</u>

The primary purpose of these interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds and internal service fund are eliminated on the government-wide financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 6 - 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 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, 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 2017 represent the collection of calendar year 2016 taxes. Public utility real and personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, 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.

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, 2017, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2017 was \$1,574,542 in the general fund, \$209,508 in the bond retirement fund and \$156,856 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2016 was \$1,576,712 in the general fund, \$285,625 in the bond retirement fund and \$196,222 in the permanent improvement fund (a nonmajor governmental fund). 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.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 263,689,770	96.96	\$ 266,810,415	96.93
Public utility personal	<u>8,257,810</u>	<u>3.04</u>	<u>8,438,430</u>	<u>3.07</u>
Total	<u>\$ 271,947,580</u>	<u>100.00</u>	<u>\$ 275,248,845</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$41.95		\$46.03	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2017 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Taxes	\$ 8,365,565
Accounts	3,495
Intergovernmental	<u>214,488</u>
Total	<u>\$ 8,583,548</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance <u>06/30/16</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/17</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 160,330	\$ -	\$ -	\$ 160,330
Total capital assets, not being depreciated	<u>160,330</u>	<u>-</u>	<u>-</u>	<u>160,330</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,445,908	-	(209,202)	1,236,706
Buildings and improvements	14,239,292	-	-	14,239,292
Furniture and equipment	2,042,726	38,252	(17,069)	2,063,909
Vehicles	1,247,436	161,426	(176,688)	1,232,174
Total capital assets, being depreciated	<u>18,975,362</u>	<u>199,678</u>	<u>(402,959)</u>	<u>18,772,081</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(824,681)	(55,239)	147,910	(732,010)
Buildings and improvements	(5,018,113)	(341,288)	-	(5,359,401)
Furniture and equipment	(1,615,542)	(65,752)	9,206	(1,672,088)
Vehicles	(676,638)	(85,803)	147,250	(615,191)
Total accumulated depreciation	<u>(8,134,974)</u>	<u>(548,082)</u>	<u>304,366</u>	<u>(8,378,690)</u>
Governmental activities capital assets, net	<u>\$ 11,000,718</u>	<u>\$ (348,404)</u>	<u>\$ (98,593)</u>	<u>\$ 10,553,721</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 279,617
Special	12,541
Vocational	2,336

Support services:

Instructional staff	13,630
Administration	18,388
Fiscal	2,241
Operations and maintenance	37,532
Pupil transportation	100,313
Central	2,903
Extracurricular activities	19,515
Food service operations	59,066
Total depreciation expense	<u>\$ 548,082</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2017, the following activity occurred in governmental activities long-term obligations.

	Balance Outstanding			Balance Outstanding		Amounts
	June 30, 2016	Additions	Deductions	June 30, 2017	Due in One	Year
<u>General Obligation Bonds:</u>						
Series 2004						
Serial 1.5%-4.42% \$3,110,000	\$ 765,000	\$ -	\$ (255,000)	\$ 510,000	\$ 255,000	
Series 2007						
Serial 4% \$5,795,000	5,510,000	-	(5,510,000)	-	-	
Capital Appreciation \$259,986	122,724	-	(122,724)	-	-	
Accreted Interest	222,410	19,866	(242,276)	-	-	
Term 4%-4.125% \$3,895,000	3,895,000	-	(3,895,000)	-	-	
Series 2016, Refunding						
Serial 3%-4% \$7,885,000	-	7,885,000	-	7,885,000	375,000	
Term 3.25% \$1,000,000	-	1,000,000	-	1,000,000	-	
School Facilities Construction and Improvement Bonds - Series 2014						
Term 3.25%-5.5% \$750,000	740,000	-	(5,000)	735,000	5,000	
<u>Other long-term obligations:</u>						
Compensated Absences	399,742	102,669	(89,031)	413,380	84,415	
Net Pension Liability	11,260,219	1,287,977	-	12,548,196	-	
Total governmental activities	<u>\$ 22,915,095</u>	<u>\$ 10,295,512</u>	<u>\$ (10,119,031)</u>	<u>23,091,576</u>	<u>\$ 719,415</u>	
Add: unamortized premium				884,901		
Total on statement of net position				<u>\$ 23,976,477</u>		

Net Pension Liability: See Note 11 for detail on the District's net pension liability.

Compensated Absences: Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the general fund.

Series 2004 General Obligation Bonds: This issuance consisted of serial bonds and capital appreciation bonds. The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5% to 4.42%. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

Series 2007 General Obligation Bonds: This issuance consisted of serial bonds, term bonds, and capital appreciation bonds. The serial bonds matured at varying amounts annually on December 1, beginning in 2007. The rates on these bonds range from 4% to 4.125%. The capital appreciation bonds matured 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 bonds were retired through the bond retirement fund.

During fiscal year 2017, the Series 2007 General Obligation Bonds (serial and term) were refunded.

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.

Series 2016 General Obligation Refunding Bonds: On September 8, 2016, the District issued General Obligation Refunding Bonds (Series 2016 refunding bonds). These bonds refunded the \$9,405,000 of the Series 2007 issue. These bonds are general obligations of the District, for which is full faith and credit is pledged for repayment. On the fund financial statements, payments of principal and interest relating to these bonds are recorded as expenditures in the bond retirement fund. On the government-wide financial statements, principal payments reduce the liability reported on the statement of net position.

This issue is comprised of serial bonds, present value \$7,885,000 and term bonds present value \$1,000,000 at June 30, 2017. The interest rates on the bonds is 3.00% - 4.00%. Payments on the bonds are due June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2034.

The reacquisition price exceeded the net carrying amount of the old debt by \$82,214. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 19 years by \$1,186,580 and resulted in an economic gain of \$916,374.

The annual requirement to amortize all bonds outstanding as of June 30, 2017 is as follows:

Fiscal Year	Current Interest, Serial and Term Bonds		
	Principal	Interest	Total
2018	\$ 635,000	\$ 351,487	\$ 986,487
2019	645,000	329,341	974,341
2020	455,000	311,230	766,230
2021	475,000	297,130	772,130
2022	490,000	281,849	771,849
2023 - 2027	2,665,000	1,177,096	3,842,096
2028 - 2032	2,880,000	662,551	3,542,551
2033 - 2035	1,885,000	114,900	1,999,900
Total	<u>\$ 10,130,000</u>	<u>\$ 3,525,584</u>	<u>\$ 13,655,584</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**B. 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, 2017, are a voted debt margin of \$15,704,403 (including available funds of \$1,062,007) and an unvoted debt margin of \$275,249.

**NOTE 10 - 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, 2016 through June 30, 2017, the District contracted with Ohio School Plan and Hylant Administrative Services for property and general liability coverage. There was a \$1,000 deductible and \$33,340,750 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 property limit amount was reduced because the insurance carrier is no longer covering the vacant building that was closed in 2013. 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  
KNOX COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 10 - RISK MANAGEMENT - (Continued)**

**C. Employee Group Medical/Surgical and Dental Insurance**

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 95 school districts within the State, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District’s behalf. The claims liability of \$233,688 reported in the internal service fund at June 30, 2017 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2017	\$ 162,468	\$ 2,220,487	\$ (2,149,267)	\$ 233,688
2016	221,998	1,549,360	(1,608,890)	162,468

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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.

The 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

*Net Pension Liability*

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.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension obligation payable* on both the accrual and modified accrual bases of accounting.

*Plan Description - School Employees Retirement System (SERS)*

Plan Description –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](http://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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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, 2017, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$163,456 for fiscal year 2017. Of this amount, \$15,603 is reported as pension obligation payable.

***Plan Description - State Teachers Retirement System (STRS)***

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. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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 years 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 years 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 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 bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$449,533 for fiscal year 2017. Of this amount, \$69,876 is reported as pension obligation payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2016, 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 contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.04315740%	0.03183266%	
Proportion of the net pension liability current measurement date	0.03732190%	0.02932684%	
Change in proportionate share	-0.00583550%	-0.00250582%	
Proportionate share of the net pension liability	\$ 2,731,619	\$ 9,816,577	\$ 12,548,196
Pension expense	\$ 5,477	\$ 397,631	\$ 403,108

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 36,843	\$ 396,638	\$ 433,481
Net difference between projected and actual earnings on pension plan investments	225,320	815,041	1,040,361
Changes of assumptions	182,350	-	182,350
District contributions subsequent to the measurement date	<u>163,456</u>	<u>449,533</u>	<u>612,989</u>
Total deferred outflows of resources	<u>\$ 607,969</u>	<u>\$ 1,661,212</u>	<u>\$ 2,269,181</u>
<b>Deferred inflows of resources</b>			
Difference between District contributions and proportionate share of contributions/change in proportionate share	<u>\$ 257,363</u>	<u>\$ 903,074</u>	<u>\$ 1,160,437</u>
Total deferred inflows of resources	<u>\$ 257,363</u>	<u>\$ 903,074</u>	<u>\$ 1,160,437</u>

\$612,989 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$ 4,917	\$ (62,458)	\$ (57,541)
2019	4,753	(62,458)	(57,705)
2020	112,708	250,299	363,007
2021	<u>64,772</u>	<u>183,222</u>	<u>247,994</u>
Total	<u>\$ 187,150</u>	<u>\$ 308,605</u>	<u>\$ 495,755</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*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.

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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 average 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 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

*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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 3,616,493	\$ 2,731,619	\$ 1,990,942

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2016, 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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

<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	1.00	3.00
<b>Total</b>	<b>100.00 %</b>	<b>7.61 %</b>

\* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. 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, 2016.

**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>
District's proportionate share of the net pension liability	\$ 13,045,434	\$ 9,816,577	\$ 7,092,847

**Changes Between Measurement Date and Report Date** - In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to District's NPL is expected to be significant.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$19,994.

The District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$19,994, \$18,866, and \$34,578, respectively. The fiscal year 2017 amount has been reported as pension obligation payable. The full amount has been contributed for fiscal years 2016 and 2015.

**B. State Teachers Retirement System**

Plan Description - The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

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 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP 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 major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 735,328
Net adjustment for revenue accruals	63,281
Net adjustment for expenditure accruals	87,919
Net adjustment for other sources/uses	300,000
Funds budgeted elsewhere	(10,802)
Adjustment for encumbrances	69,626
GAAP basis	<u>\$ 1,245,352</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund and the public school support fund.

**NOTE 14 - 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.

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017

**NOTE 14 - CONTINGENCIES - (Continued)**

**C. Foundation Funding**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2017, traditional school districts must comply with minimum hours of instruction instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As a result of the fiscal year 2017 reviews, the School District is due \$284 from ODE. This amount has not been included in the financial statements.

**NOTE 15 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue 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. Expenditures 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, 2016	\$ -
Current year set-aside requirement	170,699
Current year offsets	(711,568)
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (540,869)</u>
Balance carried forward to fiscal year 2018	<u>\$ -</u>
Set-aside balance June 30, 2017	<u>\$ -</u>

During a prior fiscal year, the District issued \$8,909,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$7,722,204 at June 30, 2017.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2017**

**NOTE 16 - 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 expenditures 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 Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 47,744
Other governmental	<u>40,740</u>
Total	<u>\$ 88,484</u>

**NOTE 17 - 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.

On March 7, 2017, the District was released from Fiscal Emergency.

## REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03732190%	0.04315740%	0.04755800%	0.04755800%
District's proportionate share of the net pension liability	\$ 2,731,619	\$ 2,462,603	\$ 2,406,883	\$ 2,828,122
District's covered-employee payroll	\$ 1,142,721	\$ 1,299,241	\$ 1,381,941	\$ 1,406,712
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	239.05%	189.54%	174.17%	201.04%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.02932684%	0.03183266%	0.03391000%	0.03391000%
District's proportionate share of the net pension liability	\$ 9,816,577	\$ 8,797,616	\$ 8,248,154	\$ 9,825,147
District's covered-employee payroll	\$ 3,156,643	\$ 3,487,729	\$ 3,464,692	\$ 3,994,431
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.98%	252.24%	238.06%	245.97%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 163,456	\$ 159,981	\$ 171,240	\$ 191,537
Contributions in relation to the contractually required contribution	<u>(163,456)</u>	<u>(159,981)</u>	<u>(171,240)</u>	<u>(191,537)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,167,543	\$ 1,142,721	\$ 1,299,241	\$ 1,381,941
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 194,689	\$ 185,996	\$ 192,004	\$ 236,130	\$ 242,565	\$ 222,635
<u>(194,689)</u>	<u>(185,996)</u>	<u>(192,004)</u>	<u>(236,130)</u>	<u>(242,565)</u>	<u>(222,635)</u>
<u>\$ -</u>					
\$ 1,406,712	\$ 1,382,870	\$ 1,527,478	\$ 1,743,944	\$ 2,465,091	\$ 2,267,159
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 449,533	\$ 441,930	\$ 488,282	\$ 450,410
Contributions in relation to the contractually required contribution	<u>(449,533)</u>	<u>(441,930)</u>	<u>(488,282)</u>	<u>(450,410)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,210,950	\$ 3,156,643	\$ 3,487,729	\$ 3,464,692
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 519,276	\$ 531,956	\$ 553,540	\$ 632,937	\$ 636,009	\$ 598,874
<u>(519,276)</u>	<u>(531,956)</u>	<u>(553,540)</u>	<u>(632,937)</u>	<u>(636,009)</u>	<u>(598,874)</u>
<u>\$ -</u>					
\$ 3,994,431	\$ 4,091,969	\$ 4,258,000	\$ 4,868,746	\$ 4,892,377	\$ 4,606,723
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disable member was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education:</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution)			
National School Lunch Program	10.555	N/A	\$ 31,741
Cash Assistance:			
School Breakfast Program	10.553	N/A	91,454
National School Lunch Program	10.555	N/A	178,522
Cash Assistance Subtotal			<u>269,976</u>
Total Child Nutrition Cluster			<u>301,717</u>
Fresh Fruit and Vegetable Program	10.582	N/A	<u>6,711</u>
Total U.S. Department of Agriculture			<u><b>308,428</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	N/A	363,955
Improving Teacher Quality	84.367	N/A	36,872
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	N/A	237,452
Total Special Education Cluster (IDEA)			<u>237,452</u>
Total Passed Through Ohio Department of Education			<u>638,279</u>
Total U.S. Department of Education			<u><b>638,279</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 946,707</b></u>

*The accompanying notes are an integral part of this schedule.*

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of East Knox Local School District (the District) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 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, Ohio (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 2018.

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

As part of our financial statement audit, we considered the 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 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 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.

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

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506  
Phone: 614-466-3402 or 800-443-9275

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 27, 2018



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

### ***Report on Compliance for each Major Federal Program***

We have audited East Knox Local School District's, Knox County, Ohio (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the East Knox Local School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance 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 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 each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on each Major Federal Program***

In our opinion, East Knox Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2017.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506  
Phone: 614-466-3402 or 800-443-9275

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Report on Internal Control Over Compliance***

The 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 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 the Uniform Guidance, 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 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 Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 27, 2018

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster, Title I Grants to Local Educational Agencies CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

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# Dave Yost • Auditor of State

**EAST KNOX LOCAL SCHOOL DISTRICT**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 22, 2018**