

East Knox Local School District

Audited Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Education
East Knox Local School District
23201 Coshocton Road
P.O. Box 68
Howard, Ohio 43028-0068

We have reviewed the *Independent Auditor's Report* of the East Knox Local School District, Knox County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The East Knox Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 6, 2007

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

JUNE 30, 2006

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

October 27, 2006

To the Board of Education
East Knox Local School District
Howard, OH 43028

Independent Auditor's Report

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 (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, as of June 30, 2006, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund, thereof, for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 27, 2006 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Government's basic financial statements. The schedule of expenditure federal awards presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the schedule of expenditure federal awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

This discussion and analysis of the East Knox Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key highlights for 2006 are as follows:

General Revenues accounted for \$9,633,309 in revenue or 83% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,965,433 or 17% of total revenues of \$11,598,742.

Total program expenses were \$11,306,698.

In total, net assets increased \$292,044.

Outstanding bonded debt decreased from \$3,055,000 to \$2,825,000 through payment of bond principal.

Using this Annual Report

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

The *Statement of Net assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a long-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 East Knox Local School District, the general fund is the most significant fund.

Basis of Accounting

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

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

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005, within the limitations of modified cash basis accounting. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities. These statements report the District's cash position and changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, a reader can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, other nonfinancial factors should also be considered such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 12. Fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Although the District uses several funds to account for financial transactions, the most significant fund is the general fund.

Governmental Funds- Most of the District's activities are reported in governmental, which focuses 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 modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps to 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds- The District is the trustee, or fiduciary, for various student managed activity programs. All of the District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 15. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The School District as a Whole

Table 1 provides a summary of the District's net assets for 2006 compared to 2005 on a modified cash basis.

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$5,159,426	\$ 4,867,382
Total Assets	\$5,159,426	\$ 4,867,382
Net Assets		
Restricted for:		
Debt Service	737,139	634,004
Capital Outlay	111,704	81,190
Other Purposes	0	45,881
Unrestricted	4,310,583	4,106,307
Total Net Assets	\$5,159,426	\$4,867,382

Net assets of governmental activities increased \$292,044 or six percent during 2006. The primary reasons contributing to the increase in net assets are:

- The Board of Education's goals to keep expenditures within available revenues.
- The District is planning for the operational costs associated with a new, third school building, including staff, utilities and maintenance.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005:

(Table 2)
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$631,025	\$624,051
Operating Grants and Contributions	1,285,432	1,081,609
Capital Grants and Contributions	48,976	26,170
Total Program Receipts	<u>1,965,433</u>	<u>1,731,830</u>
General Receipts:		
Property and Other Local Taxes	4,673,410	4,283,011
Grants and Entitlements Not Restricted to Specific Programs	4,729,263	4,218,369
Interest	203,185	86,356
Miscellaneous	27,451	48,613
Total General Receipts	<u>9,633,309</u>	<u>8,636,349</u>
Total Receipts	<u>11,598,742</u>	<u>10,368,179</u>
Disbursements:		
Instruction	6,485,953	6,028,264
Support Services	3,723,370	3,085,433
Food Service	465,633	358,525
Extracurricular Activities	250,167	202,959
Capital Outlay	19,638	9,948
Debt Service	361,937	372,243
Total Disbursements	<u>11,306,698</u>	<u>10,057,372</u>
Increase (Decrease) in Net Assets	292,044	310,807
Net Assets, Beginning of Year	<u>4,867,382</u>	<u>4,556,575</u>
Net Assets, End of Year	<u>\$5,159,426</u>	<u>\$4,867,382</u>

Total receipts increased by 11.9 percent due to:

- A \$510,894 increase in grants and entitlements, due to increases in state foundation funding.
- A \$390,399 increase in tax receipts due to the property tax valuations being updated in January 2005.
- A \$203,823 increase in operating grants, due to increase in federal grants received.
- A \$116,829 increase in interest receipts, due to the gradual increase of interest rates over the fiscal year and the balance in tact for the entire year.

Total disbursements increased 12.4 percent due to:

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

- A \$457,689 increase in instruction, due to 3.5 percent step increase in salaries and 4 percent base increase in salaries. In addition, District purchased many new pc's and laptops for instructional purposes.
- A \$637,937 increase in support services, due to 3.5 percent step increase in salaries and 4 percent base increase in salaries.

Governmental Activities

If you look at the Statement of Activities on page 11, you will see that the first column lists the major services provided by the District. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for instruction and support services, which account for 57 and 33 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

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

	Total Cost of Service 2006	Total Cost of Service 2005	Net Cost of Service 2006	Net Cost of Service 2005
Instruction	\$ 6,485,953	\$ 6,028,264	\$ (5,095,860)	\$ (4,798,836)
Support Services:				
Pupil and Instructional Staff	666,596	511,194	(609,006)	(445,626)
Board of Education, Administration				
Fiscal, Business and Central	1,280,021	1,151,596	(1,278,221)	(1,151,596)
Operation and Maintenance of Plant	1,032,670	727,021	(1,013,183)	(725,829)
Pupil Transportation	744,083	695,622	(695,730)	(679,007)
Food Service	465,633	358,525	(103,317)	(16,912)
Extracurricular Activities	250,167	202,959	(164,373)	(140,501)
Capital Outlay	19,638	9,948	(19,638)	5,008
Debt Service	361,937	372,243	(361,937)	(372,243)
Total	<u>\$ 11,306,698</u>	<u>\$ 10,057,372</u>	<u>\$ (9,341,265)</u>	<u>\$ (8,325,542)</u>

The dependence upon tax receipts and unrestricted State entitlements for governmental activities is apparent. The community, as a whole, is by far the primary support for the East Knox Local School District.

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the District amended its General Fund budget several times to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Debt

At June 30, 2006, the District had \$2,825,000 in bonds outstanding with \$230,000 due within one year. See Note 8 for additional details. During fiscal year 2006, \$230,000 of general obligation bonds were retired.

Current Issues

The East Knox Local School District continues to receive strong support from the residents of the District. As the preceding information shows, the District relies heavily on local taxpayer support. The most recent levy passed by the voters was a \$600,000 Emergency Levy passed in November 2004 for five years. The Board of Education at the August 14, 2006 regular board meeting, voted to place a 3.89 bond levy on the ballot on November 7, 2006. The bond levy is for a new 5-8 middle school, improvements to the heating system at both of the current buildings, a new bus garage and a new six-lane all weather track.

Real estate tax collections have shown steady increases, but the lack of business industry in the area has kept tangible personal property collections relatively small and insignificant as compared to real estate taxes. 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 0.5 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. Property taxes made up 40 percent of revenues for governmental activities for the East Knox Local School District in fiscal year 2006.

The East Knox Local School District does anticipate some growth in State revenue during the next few years, but that is mainly due to estimates of enrollment growing approximately 4%-5% each year. The concern is the State Legislative approval of the biennial budget, effective July 1, 2005 may have a negative impact on the district in the near future.

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

East Knox Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Current Building Issues

Due to over crowding in both of the School District's buildings, the Board of Education has placed a 3.89 bond levy on the ballot in November. The new 5-8 Middle School would be built on the land adjacent to the Junior/Senior High Building and remove two grades from each of the current buildings.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gene Berry, Treasurer of East Knox Local School District, P.O. Box 68, Howard, Ohio 43028.

East Knox Local School District

Statement of Net Assets - Cash Basis

June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 5,159,426</u>
<i>Total Assets</i>	<u><u>5,159,426</u></u>
Net Assets	
Restricted for:	
Capital Projects	111,704
Debt Service	737,139
Unrestricted	<u>4,310,583</u>
<i>Total Net Assets</i>	<u><u>\$ 5,159,426</u></u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts				Net (Expense) Revenue and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 3,585,882	\$ 309,783	\$ 88,092	\$ 0	\$ (3,188,007)
Special	1,424,578	2,305	969,612	0	(452,661)
Vocational	169,654	0	20,301	0	(149,353)
Other	1,305,839	0	0	0	(1,305,839)
Support Services:					
Pupil	428,422	37,336	6,000	0	(385,086)
Instructional Staff	238,174	0	14,254	0	(223,920)
Board of Education	12,140	0	0	0	(12,140)
Administration	931,188	0	1,800	0	(929,388)
Fiscal	336,693	0	0	0	(336,693)
Operation and Maintenance of Plant	1,032,670	0	4,200	15,287	(1,013,183)
Pupil Transportation	744,083	0	38,764	9,589	(695,730)
Operation of Food Services	465,633	219,907	142,409	0	(103,317)
Extracurricular Activities	250,167	61,694	0	24,100	(164,373)
Capital Outlay	19,638	0	0	0	(19,638)
Debt Service:					
Principal	267,214	0	0	0	(267,214)
Interest	94,723	0	0	0	(94,723)
Total Governmental Activities	\$ 11,306,698	\$ 631,025	\$ 1,285,432	\$ 48,976	(9,341,265)
General Receipts					
Property Taxes Levied for:					
General Purposes					4,157,650
Debt Service					384,504
Capital Outlay					131,256
Grants and Entitlements not Restricted to Specific Programs					4,729,263
Interest					203,185
Miscellaneous					27,451
Total General Receipts					9,633,309
Change in Net Assets					292,044
Net Assets Beginning of Year					4,867,382
Net Assets End of Year					\$ 5,159,426

See accompanying notes to the basic financial statements

East Knox Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2006

	General	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,194,787	\$ 737,139	\$ 227,500	\$ 5,159,426
<i>Total Assets</i>	<u>\$ 4,194,787</u>	<u>\$ 737,139</u>	<u>\$ 227,500</u>	<u>\$ 5,159,426</u>
Fund Balances				
Reserved for Encumbrances	\$ 109,955	\$ 0	\$ 90,694	\$ 200,649
Reserved for Textbooks/Instructional Materials	107,791	0	0	107,791
Unreserved:				
Undesignated, Reported in:				
General Fund	3,977,041	0	0	3,977,041
Special Revenue Funds	0	0	97,286	97,286
Debt Service Fund	0	737,139	0	737,139
Capital Projects Funds	0	0	39,520	39,520
<i>Total Fund Balances</i>	<u>\$ 4,194,787</u>	<u>\$ 737,139</u>	<u>\$ 227,500</u>	<u>\$ 5,159,426</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property Taxes	\$ 4,157,650	\$ 384,505	\$ 131,256	\$ 4,673,411
Intergovernmental	5,066,928	47,592	917,816	6,032,336
Interest	197,986	620	4,579	203,185
Tuition and Fees	306,753	0	35,606	342,359
Extracurricular Activities	0	0	65,729	65,729
Charges for Services	1,590	0	218,170	219,760
Miscellaneous	7,747	0	51,783	59,530
<i>Total Receipts</i>	<u>9,738,654</u>	<u>432,717</u>	<u>1,424,939</u>	<u>11,596,310</u>
Disbursements				
Current:				
Instruction:				
Regular	3,502,160	0	82,177	3,584,337
Special	993,017	0	431,561	1,424,578
Vocational	169,654	0	0	169,654
Other	1,305,839	0	0	1,305,839
Support Services:				
Pupil	370,145	0	58,277	428,422
Instructional Staff	152,085	0	86,089	238,174
Board of Education	12,140	0	0	12,140
Administration	830,384	0	100,804	931,188
Fiscal	323,727	8,205	4,761	336,693
Operation and Maintenance of Plant	920,747	0	111,923	1,032,670
Pupil Transportation	719,049	0	25,034	744,083
Central	0	0	0	0
Operation of Food Services	186	0	465,447	465,633
Extracurricular Activities	163,025	0	87,142	250,167
Capital Outlay	0	0	19,638	19,638
Debt Service:				
Principal Retirement	0	230,000	37,214	267,214
Interest and Fiscal Charges	0	91,377	3,346	94,723
<i>Total Disbursements</i>	<u>9,462,158</u>	<u>329,582</u>	<u>1,513,413</u>	<u>11,305,153</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>276,496</u>	<u>103,135</u>	<u>(88,474)</u>	<u>291,157</u>
Other Financing Sources (Uses)				
Transfers In	0	0	25,000	25,000
Transfers Out	(25,000)	0	0	(25,000)
Advances In	25,453	0	20,000	45,453
Advances Out	(20,000)	0	(25,453)	(45,453)
Other Financing Sources	2,435	0	0	2,435
Other Financing Uses	0	0	(1,548)	(1,548)
<i>Total Other Financing Sources (Uses)</i>	<u>(17,112)</u>	<u>0</u>	<u>17,999</u>	<u>887</u>
<i>Net Change in Fund Balances</i>	259,384	103,135	(70,475)	292,044
<i>Fund Balances Beginning of Year</i>	<u>3,935,403</u>	<u>634,004</u>	<u>297,975</u>	<u>4,867,382</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,194,787</u>	<u>\$ 737,139</u>	<u>\$ 227,500</u>	<u>\$ 5,159,426</u>

The accompanying notes are an integral part of the basic financial statements.

East Knox Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Receipts				
Property Taxes	\$ 3,691,713	\$ 4,157,649	\$ 4,157,650	\$ 1
Intergovernmental	4,742,249	5,066,882	5,066,928	46
Interest	85,000	200,000	197,986	(2,014)
Tuition and Fees	296,901	307,101	306,753	(348)
Charges for Services	2,400	1,500	1,590	90
Miscellaneous	3,400	7,700	7,747	47
<i>Total receipts</i>	<u>8,821,663</u>	<u>9,740,832</u>	<u>9,738,654</u>	<u>(2,178)</u>
Disbursements				
Current:				
Instruction:				
Regular	3,399,720	3,559,476	3,548,823	10,653
Special	1,041,037	1,006,605	993,017	13,588
Vocational	174,410	172,230	171,499	731
Other	1,174,085	1,305,871	1,306,134	(263)
Support Services:				
Pupil	363,320	375,850	374,417	1,433
Instructional Staff	154,246	155,106	154,271	835
Board of Education	24,180	12,380	12,180	200
Administration	817,889	848,800	841,933	6,867
Fiscal	347,071	342,701	325,999	16,702
Operation and Maintenance of Plant	763,227	948,996	937,547	11,449
Pupil Transportation	711,405	761,717	743,083	18,634
Operation of Non-Instructional Services	0	201	186	15
Extracurricular Activities	106,279	164,975	163,025	1,950
<i>Total Disbursements</i>	<u>9,076,869</u>	<u>9,654,908</u>	<u>9,572,113</u>	<u>82,795</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(255,206)</u>	<u>85,924</u>	<u>166,541</u>	<u>(84,973)</u>
Other Financing Sources (Uses)				
Transfers In	172,456	172,456	172,456	0
Transfers Out	(172,456)	(197,456)	(197,456)	0
Advances In	20,000	25,453	25,453	0
Advances Out	(20,000)	(20,000)	(20,000)	0
Other Financing Sources	20,000	2,400	2,435	35
<i>Total Other Financing Sources (Uses)</i>	<u>20,000</u>	<u>(17,147)</u>	<u>(17,112)</u>	<u>35</u>
<i>Net Change in Fund Balance</i>	<u>(235,206)</u>	<u>68,777</u>	<u>149,429</u>	<u>(84,938)</u>
<i>Fund Balance Beginning of Year - Restated</i>	3,699,717	3,699,717	3,699,717	0
Prior Year Encumbrances Appropriated	<u>235,686</u>	<u>235,686</u>	<u>235,686</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 3,700,197</u>	<u>\$ 4,004,180</u>	<u>\$ 4,084,832</u>	<u>\$ (84,938)</u>

See accompanying notes to the basic financial statements

East Knox Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$56,995</u>
Net Assets	
Unrestricted	<u>\$56,995</u>

The accompanying notes are an integral part of the basic financial statements.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

East Knox Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected, five-member Board. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The Board controls the Local School District staffed by 77 certified teaching personnel and 52 non-certified support personnel to provide services to 1,235 students.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For East Knox Local School District, this includes general operations, food service, and student related activities of the School District.

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

The School District is associated with the Tri-Rivers Education Computer Association which is a joint governed organization. Information about these organizations is presented in Note 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

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

A. Basis of Accounting

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

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

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

General Fund	The General Fund is the primary operating fund of the School District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.
Debt Service Fund	This fund accounts for receipts derived from levies used for the retirement of debt and related interest.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (continued)

Fiduciary Fund Types

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

C. Budgetary Process

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

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

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

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

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

Estimated Resources

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (continued)

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of disbursements, 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 expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

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

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year disbursements for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

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

F. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Long-Term Debt

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

H. Intergovernmental Receipts

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

I. Inventory and Prepaid Items

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

J. Interfund Receivables/Payables

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for post-retirement health care benefits.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets, and displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

The School District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

M. Receipts and Expenditures

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District’s taxpayers are reported as program receipts. The School District has the following program receipts: charges for service, operating and capital grants and contributions.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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.

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

As of June 30, 2006, the District had \$340 in undeposited cash on hand which is included in the fund balance.

Deposits

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

At fiscal year end, the carrying amount of the District's deposits was \$5,193,942 and the bank balance was \$5,329,814. Of the bank balance, \$400,000 was covered by federal depository insurance and \$4,929,814 was uninsured. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments

Investments are reported at fair value. As of June 30, 2006, the district had the following investments:

	Value as of 6/30/2006	% of Investment Total	Maturities	
			0-1 Year	1-5 Years
STAROhio	\$ 22,473	100%	\$ 22,473	-
Total Investments	<u>\$ 22,473</u>	<u>100%</u>	<u>\$ 22,473</u>	<u>\$ -</u>

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 purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

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

The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute.

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First half distributions are received by the School District in the second half of the fiscal year. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes received in calendar year 2006 represent the collection of calendar year 2005 taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes received in calendar year 2006 were levied after April 1, 2005 on the assessed value listed as of the prior January 1, the lien date. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2006 represent the collection of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien on December 31, 2004, were levied after April 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in Calendar year 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Knox and Licking Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For fiscal year 2006, the School District contracted the Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$19,774,804 limit.

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

Vehicles are covered by the Indiana Insurance Company with a \$500 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability.

Additionally, the district carries a \$3,000,000 blanket umbrella policy with Indiana Insurance Company.

B. Workers' Compensation

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2006, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's contributions to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$155,016, \$162,704, and \$144,998, respectively; 51 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for the fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combine Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and East Knox Local School District are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for the fiscal years ended June 30, 2006, 2005, and 2004 were \$474,960, \$486,360, and \$441,908, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for the fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2 percent of wages paid.

NOTE 7 - POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

Retirees who participated in the Defined Plan or Combined Plan and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2006

NOTE 7 - POST EMPLOYMENT BENEFITS (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the fund was \$3.3 billion at June 30, 2005 (the latest information available). For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The target level for the health care reserve is 150 percent of annual health care disbursements. For the School District, the amount to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$37,979.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care for the year ending June 30, 2005 (the latest information available) were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient in the long-term to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 8 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	<u>Outstanding</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding</u> <u>June 30, 2006</u>
General Obligation Bonds				
Series 2004 1.5%-4.42% \$3,290,000	\$ 3,055,000	\$ 0	\$ 230,000	\$ 2,825,000
Capital Leases	<u>70,798</u>	<u>0</u>	<u>37,073</u>	<u>33,725</u>
	<u>\$ 3,125,798</u>	<u>\$ 0</u>	<u>\$ 267,073</u>	<u>\$ 2,858,725</u>

Outstanding general obligation bonds consist of school building construction. General obligation bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District.

A. Serial 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 4.2%.

B. Capital Appreciation Bonds

The capital appreciation bonds mature December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 8 - LONG-TERM OBLIGATIONS (Continued)

The annual requirement to amortize all debt outstanding as of June 30, 2006, including interest payments of \$973,508 is as follows:

Year Ending June 30,	General Obligation Bond
2007	\$ 316,778
2008	306,946
2009	306,253
2010	299,640
2011	292,453
2012-2016	1,463,880
2017-2019	812,558
Total Principal and Interest	3,798,508
Less Interest	(973,508)
Total Principal	\$ 2,825,000

NOTE 9- CAPITALIZED LEASES

In prior fiscal years, the School District entered into capitalized leases for modular classrooms.

The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service disbursements in the financial statements.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease Obligation</u>
2007	\$ <u>34,674</u>
Total minimum lease payments	34,674
Less: Amount representing interest	(949)
Present value of minimum lease payments	\$ <u>33,725</u>

NOTE 10 - STATUTORY RESERVES

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

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(Continued)
June 30, 2006

NOTE 10 - STATUTORY RESERVES (Continued)

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal years 2006.

	Textbook Instructional Materials Reserve	Capital Improvement Reserve	Total
Set-Aside Reserve Balance as of June 30, 2005	\$ 45,881	\$ 0	\$ 45,881
Current Year Set-Aside Requirement	162,456	162,456	324,912
Current Year Offsets	0	(146,482)	(146,482)
Qualifying Disbursements	(267,377)	(52,034)	(319,411)
Totals	\$ (59,040)	\$ (36,060)	\$ (95,100)
Set-aside Balance Carried Forward to Future Fiscal Years	\$ (59,040)	\$ 0	
Set-Aside Reserve Balance as of June 30, 2006	\$ 0	\$ 0	

The School District had qualifying disbursements during the year that reduced the textbooks and the capital improvements set-aside amount below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years.

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

A. Jointly governed Organization

The School District is a participant in the Tri-Rivers Educational Computer Associations (TRECA), which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Marion, Morrow, Knox and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing Board of TRECA consists of two representatives from each county elected by majority vote of all charter member schools districts within each county. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District paid \$27,601 to TRECA during fiscal year 2006 for services.

B. Insurance Purchasing Pool

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2006

NOTE 12 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

October 27, 2006

To the Board of Education
East Knox Local School District
Howard, Ohio 43028

Independent Auditor's Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District (the "School District") as of and for the year ended June 30, 2006 which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the School District in a separate letter dated October 27, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-01.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

October 27, 2006

To the Board of Education
East Knox Local School District
Howard, Ohio 43028

Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program and Internal
Control Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the East Knox Local School District (the "School District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2006. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the East Knox Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to the major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Pass-Through Entity Number	CFDA Number	Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION:					
<i>Passed through Ohio Department of Education:</i>					
Title I Grants to Local Educational Agencies	C1-S1-2005 C1-S1-2006	84.010	\$ 40,570 <u>269,799</u>	\$ 41,783 <u>266,759</u>	\$ 0 <u>0</u>
Total Title I			310,369	308,542	0
Comprehensive School Reform Demonstration	RF-CC-2006	84.332	46,140	42,274	0
Innovative Education Program Strategies	C2-S1-2005 C2-S1-2006	84.298	5,778 <u>3,167</u>	6,236 <u>2,870</u>	0 <u>0</u>
Total Innovative Education Program Strategies			8,945	9,106	0
Special Education Grants to States:					
Part B- IDEA	6B-SF-2005	84.027	14,700	17,097	0
Part B- IDEA	6B-SF-2006		<u>269,662</u>	<u>266,215</u>	<u>0</u>
Total Special Education Grants to States			284,362	283,312	0
Safe & Drug Free Schools Grant	DR-S1-2005 DR-S1-2006	84.186	5,301 <u>4,187</u>	5,301 <u>3,344</u>	0 <u>0</u>
Total Safe & Drug Free Schools Grant			9,488	8,645	0
Title II-A Improving Teacher Quality	TR-S1-2005	84.367	989	989	0
Title II-A Improving Teacher Quality	TR-S1-2006		<u>47,900</u>	<u>47,003</u>	<u>0</u>
Total II-A Improving Teacher Quality			48,889	47,992	0
Title II-D Education Technology Grant	TJ-S1-2005	84.318	6,941	6,941	0
Title II-D Education Technology Grant	TJ-S1-2006		<u>6,193</u>	<u>6,193</u>	<u>0</u>
Total II-D Education Technology Grant			<u>13,134</u>	<u>13,134</u>	<u>0</u>
Total U. S. Department of Education			721,327	713,005	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:					
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>					
Medical Assistance Program - Community Alternative Funding System (CAFS)	FY 2006	93.778	22,576	22,576	0
Medical Assistance Program - State Children's Health Insurance Program (SCHIP)	FY 2006	93.767	<u>1,230</u>	<u>1,230</u>	<u>0</u>
Total U.S. Department of Health and Human Services			23,806	23,806	0
U.S. DEPARTMENT OF AGRICULTURE:					
<i>Passed through Ohio Department of Education:</i>					
Food Distribution Program	N/A	10.550	47,659	0	47,659
Nutrition Cluster:					
School Breakfast Program	05-PU-2005 05-PU-2006	10.553	4,447 <u>32,320</u>	4,447 <u>32,320</u>	0 <u>0</u>
Total School Breakfast Program			36,767	36,767	0
National School Lunch Program	LL-P4-2005 LL-P4-2006	10.555	18,060 <u>82,160</u>	18,060 <u>82,160</u>	0 <u>0</u>
Total National School Lunch Program			<u>100,220</u>	<u>100,220</u>	<u>0</u>
Total - Nutrition Cluster			<u>136,987</u>	<u>136,987</u>	<u>0</u>
Total US Department of Agriculture			<u>184,646</u>	<u>136,987</u>	<u>47,659</u>
Total Federal Financial Assistance			<u>\$ 929,779</u>	<u>\$ 873,798</u>	<u>\$ 47,659</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section 510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Special Education Grants to States	CFDA #84.010 CFDA #84.027
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2006**

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

NONCOMPLIANCE

Finding Number	2006-001
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GAAP Reporting

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year 2006 the School District prepared its financial statements on the basis of accounting formerly prescribed and permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America.	No	The District plans to continue on reporting the cash basis of accounting



Mary Taylor, CPA
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 20, 2007**