

East Knox Local School District

Knox County, Ohio

Single Audit

July 1, 2008 through June 30, 2009

Year Audited Under GAGAS: 2009



**Balestra, Harr & Scherer, CPAs, Inc.**

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Mary Taylor, CPA  
Auditor of State

Board of Education  
East Knox Local School District  
23227 Coshocton Road  
Howard, Ohio 43028

We have reviewed the *Independent Auditor's Report* of the East Knox Local School District, Knox County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2008 through June 30, 2009. 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

January 22, 2010

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 For the Fiscal Year Ended June 30, 2009

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### Independent Auditor's Report

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District (the School District), Knox County, Ohio, as of and for the year ended June 30, 2009, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

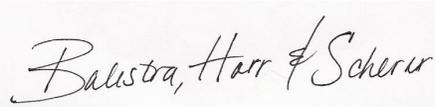
Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 School District, as of June 30, 2009, 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 accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2009, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Our audit was conducted to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 28, 2009

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

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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, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

***Financial Highlights***

Key financial highlights for 2009 are as follows:

General revenues accounted for \$14,160,914 in revenue or 88.49% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted \$1,841,101 or 11.51% of total revenues of \$16,002,015.

Total program expenses were \$19,864,104.

In total, net assets decreased \$3,862,089.

***Using this Annual Report***

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

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

***Basis of Accounting***

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

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

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

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***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 2009, within the limitations of cash basis accounting. The statement of net assets- cash-basis presents the cash balances and investments of the governmental activities of the District at year end. The statement of activities-cash-basis compares cash disbursements with program receipts for each District program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

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

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

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

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

*Fund Financial Statements*

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

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

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

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

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***The School District as a Whole***

Table 1 provides a summary of the District's net assets for 2009 compared to 2008 on a cash basis of accounting.

(Table 1)  
**Net Assets**

	Governmental Activities	
	2009	2008
<b>Assets</b>		
Cash and Cash Equivalents	\$ 3,585,893	\$ 7,447,982
Total Assets	\$ 3,585,893	\$7,447,982
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$ 475,235	3,306,600
Debt Service	545,447	604,017
Other Purposes	92,745	155,129
Unrestricted	2,472,466	3,382,236
Total Net Assets	\$3,585,893	\$7,447,982

Net assets of governmental activities decreased \$3,862,089 during fiscal year 2009. As can be seen in Table 1, the majority of the decrease is categorized as restricted for capital projects. The District received funds in Fiscal Year 2007 for the construction of a new building, bus garage, and track. A significant portion of these funds were spent in 2008, but some of the contract payments carried over into 2009. Unrestricted net assets decreased by \$909,770 primarily due to disbursements exceeding receipts for general fund related activities in 2009.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

Table 2 shows the changes in net assets for fiscal year 2009 compared to 2008:

Table 2  
Change in Net Assets  
Governmental Activities

	2009	2008
<b>Receipts:</b>		
Program Revenues:		
Charges for Services and Sales	\$840,861	\$760,396
Operating Grants, Contributions	925,549	1,042,115
Capital Grants and Contributions	74,691	29,539
Total Program Revenues	<u>1,841,101</u>	<u>1,832,050</u>
General Revenues:		
Property Taxes	5,666,958	5,477,241
Grants and Entitlements not Restricted to Specific Programs	5,235,615	5,189,389
Interest	173,340	698,829
Proceeds from Issuance of Notes	3,010,000	2,800,000
Sale of Capital Assets	0	70,001
Premium on Debt Issue	12,966	19,096
Miscellaneous	62,035	76,633
Total General Revenues	<u>14,160,914</u>	<u>14,331,189</u>
Total Revenues	<u>16,002,015</u>	<u>16,163,239</u>
<b>Disbursements:</b>		
Instruction	7,598,100	7,389,439
Support Services	4,210,459	4,373,347
Operation of Food Services	543,949	480,835
Extracurricular Activities	331,371	381,749
Capital Outlay	3,586,544	9,173,107
Debt Service	3,593,681	4,225,869
Total Expenses	<u>19,864,104</u>	<u>26,024,346</u>
Change in Net Assets	(3,862,089)	(9,861,107)
Net Assets at Beginning of Year	<u>7,447,982</u>	<u>17,309,089</u>
Net Assets at End of Year	<u>\$3,585,893</u>	<u>\$7,447,982</u>

Total receipts decreased in fiscal year 2009. The decrease is partially due to a decline in interest due to a decrease in cash from the use of construction funds during 2009 for capital improvements. Most of these funds were spent by the end of the fiscal year.

Total disbursements decreased in fiscal year 2009 substantially. The most dramatic changes can be attributed to capital outlay and debt service expenditures. Capital outlay expenditures decreased by \$5,586,563 due to the majority of the construction of the middle school and bus garage mainly taking place in fiscal year 2008. Debt service expenditures decreased by \$632,188 due to the decreased payment of the principal and interest on bond anticipation notes.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

**Governmental Activities**

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

Table 3  
Total and Net Cost of Program Services  
Governmental Activities

	Total Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2009	Net Cost of Services 2008
Instruction	\$7,598,100	\$7,389,439	\$6,448,965	\$6,207,337
Support Services:				
Pupil and Instructional Staff	843,728	786,339	808,908	752,860
Board of Education, Administration and Fiscal	1,401,439	1,274,852	1,401,439	1,274,852
Operation of Maintenance and Plant	1,145,690	1,448,033	1,091,975	1,429,410
Pupil Transportation	819,602	864,123	798,626	853,207
Operation of Food Services	543,949	480,835	34,192	15,352
Extracurricular Activities	331,371	381,749	258,673	260,302
Capital Outlay	3,586,544	9,173,107	3,586,544	9,173,107
Debt Service	3,593,681	4,225,869	3,593,681	4,225,869
Total	<u>\$19,864,104</u>	<u>\$26,024,346</u>	<u>\$18,023,003</u>	<u>\$24,192,296</u>

**The District Funds**

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$16,002,015 and cash disbursements and other financing uses of \$19,864,104.

The District's General fund cash balance decreased by \$909,770 due primarily to an increase in regular instruction, instructional staff, and operation and maintenance of plant expenditures.

The District's Debt Service fund cash balance decreased by \$58,570 due primarily to note issuance and retirement.

The District's Capital Project fund cash balance decreased by \$2,831,365 due primarily to continued capital outlay expenditures for construction.

East Knox Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2009  
Unaudited

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**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 2009, the District amended its General Fund budget several times to reflect changing circumstances. The differences between the budgeted and actual were not significant.

**Debt**

At June 30, 2009 the District had \$11,834,986 in bonds outstanding with \$235,000 due within one year. The District also had \$600,000 in tax anticipation notes outstanding with \$114,434 due within one year. The District also had \$2,410,000 in bond anticipation notes outstanding at June 30, 2009. The bond anticipation notes are due March 3, 2010. See Notes 8 and 9 for more information about the District's debt.

**Current Issues**

The East Knox Local School District continues to receive strong support from the residents of the District. The District relies heavily on taxpayer support. The District opened a new building in August 2008 that was solely funded by a bond issue passed in November 2006.

The most significant issue for the District at this time is the General fund financial situation. There was a deficit in 2007, 2008, 2009 and a deficit is projected in 2010 as well. The board has worked prudently do build a cash reserve for situations like this, but the reserve will dwindle quickly if this trend is continued. The District approved over \$500,000 in budget cuts for 2010. Most of the cuts were personnel related.

Real estate taxes have shown steady increases, but the lack of business industry in the area has kept tangible personal property tax 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 .5 mills and the owner would still pay \$35.00.

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

The District has seen very little increase in State revenue over the past few years. For fiscal years 2007, 2008, and 2009 the District is on the state guaranty. The District is again on the guaranty for 2010 and will see a 1% reduction in state funding due to the passing of HB1 of the current biennial state budget. Only being guaranteed the same amount of state funding each year even though enrollment has increased has made it difficult for the District, and has made a large contribution to the decrease in fund balance for fiscal years 2007, 2008, and 2009.

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

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jessica Busenburg, Treasurer of East Knox Local School District, 23227 Coshocton Road, Howard, Ohio 43028.

**East Knox Local School District**  
*Statement of Net Assets - Cash Basis*  
*June 30, 2009*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,585,893
<i>Total Assets</i>	\$3,585,893
 <b>Net Assets</b>	
Restricted for:	
Capital Projects	\$475,235
Debt Service	545,447
Other Purposes	92,745
Unrestricted	2,472,466
<i>Total Net Assets</i>	\$3,585,893

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, 2009

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 4,378,918	\$ 490,547	\$ 47,964	\$ -	\$ (3,840,407)
Special	1,475,887	30,153	554,080	-	(891,654)
Vocational	201,234	-	26,391	-	(174,843)
Other	1,542,061	-	-	-	(1,542,061)
Support Services:					
Pupil	619,707	-	8,505	-	(611,202)
Instructional Staff	224,021	-	26,315	-	(197,706)
Board of Education	15,019	-	-	-	(15,019)
Administration	1,058,552	-	-	-	(1,058,552)
Fiscal	327,868	-	-	-	(327,868)
Operation and Maintenance of Plant	1,145,690	-	-	53,715	(1,091,975)
Pupil Transportation	819,602	-	-	20,976	(798,626)
Operation of Food Services	543,949	253,663	256,094	-	(34,192)
Extracurricular Activities	331,371	66,498	6,200	-	(258,673)
Capital Outlay	3,586,544	-	-	-	(3,586,544)
Debt Service:					
Principal	3,035,000	-	-	-	(3,035,000)
Interest and Fiscal Charges	555,066	-	-	-	(555,066)
Discount on Debt Issue:					
Issuance Costs	3,615	-	-	-	(3,615)
<b>Total Governmental Activities</b>	<b>\$ 19,864,104</b>	<b>\$ 840,861</b>	<b>\$ 925,549</b>	<b>\$ 74,691</b>	<b>(18,023,003)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					4,316,911
Debt Service					980,159
Capital Outlay					369,888
Grants and Entitlements not Restricted to Specific Programs					5,235,615
Proceeds from Issuance of Notes					3,010,000
Premium on Debt Issue					12,966
Interest					173,340
Miscellaneous					62,035
<b>Total General Receipts</b>					<b>14,160,914</b>
Change in Net Assets					(3,862,089)
<b>Net Assets Beginning of Year</b>					<b>7,447,982</b>
<b>Net Assets End of Year</b>					<b>\$ 3,585,893</b>

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

**East Knox Local School District**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2009*

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 2,472,466	\$ 545,447	\$ 475,235	\$ 92,745	\$ 3,585,893
<i>Total Assets</i>	<u>2,472,466</u>	<u>545,447</u>	<u>475,235</u>	<u>92,745</u>	<u>3,585,893</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	54,015	-	341,063	20,987	416,065
Unreserved:					
Undesignated, Reported in:					
General Fund	2,418,451	-	-	-	2,418,451
Special Revenue Funds	-	-	-	71,758	71,758
Debt Service Fund	-	545,447	-	-	545,447
Capital Projects Fund	-	-	134,172	-	134,172
<i>Total Fund Balances</i>	<u>\$ 2,472,466</u>	<u>\$ 545,447</u>	<u>\$ 475,235</u>	<u>\$ 92,745</u>	<u>\$ 3,585,893</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-Cash Basis*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2009*

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property Taxes	\$ 4,316,911	\$ 980,159	\$ 369,888	\$ -	\$ 5,666,958
Intergovernmental	5,155,392	148,047	53,715	872,501	6,229,655
Interest	118,268	217	53,900	955	173,340
Tuition and Fees	510,416	-	-	-	510,416
Extracurricular Activities	-	-	-	66,498	66,498
Charges for Services	10,284	-	-	253,663	263,947
Gifts and Donations	-	-	-	6,200	6,200
Miscellaneous	20,925	-	300	39,985	61,210
<i>Total Receipts</i>	<u>10,132,196</u>	<u>1,128,423</u>	<u>477,803</u>	<u>1,239,802</u>	<u>12,978,224</u>
<b>Disbursements</b>					
Current:					
Instruction:					
Regular	4,251,373	-	59,259	68,286	4,378,918
Special	1,066,600	-	-	409,287	1,475,887
Vocational	200,509	-	725	-	201,234
Other	1,542,061	-	-	-	1,542,061
Support Services:					
Pupil	567,956	-	2,336	49,415	619,707
Instructional Staff	207,690	-	-	16,331	224,021
Board of Education	15,019	-	-	-	15,019
Administration	942,784	-	8,835	106,933	1,058,552
Fiscal	288,238	30,449	9,181	-	327,868
Operation and Maintenance of Plant	1,020,610	-	125,080	-	1,145,690
Pupil Transportation	712,217	-	103,037	4,348	819,602
Operation of Food Services	-	-	-	543,949	543,949
Extracurricular Activities	227,734	-	-	103,637	331,371
Capital Outlay	-	-	3,586,544	-	3,586,544
Debt Service:					
Principal Retirement	-	3,035,000	-	-	3,035,000
Interest and Fiscal Charges	-	540,895	14,171	-	555,066
<i>Total Disbursements</i>	<u>11,042,791</u>	<u>3,606,344</u>	<u>3,909,168</u>	<u>1,302,186</u>	<u>19,860,489</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(910,595)</u>	<u>(2,477,921)</u>	<u>(3,431,365)</u>	<u>(62,384)</u>	<u>(6,882,265)</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from the Issuance of Notes	-	2,410,000	600,000	-	3,010,000
Premium on Debt Issue	-	12,966	-	-	12,966
Discount on Debt Issue	-	(3,615)	-	-	(3,615)
Refund of Prior Year Expenditure	825	-	-	-	825
<i>Total Other Financing Sources (Uses)</i>	<u>825</u>	<u>2,419,351</u>	<u>600,000</u>	<u>-</u>	<u>3,020,176</u>
<i>Net Change in Fund Balances</i>	<u>(909,770)</u>	<u>(58,570)</u>	<u>(2,831,365)</u>	<u>(62,384)</u>	<u>(3,862,089)</u>
<i>Fund Balances Beginning of Year</i>	<u>3,382,236</u>	<u>604,017</u>	<u>3,306,600</u>	<u>155,129</u>	<u>7,447,982</u>
<i>Fund Balances End of Year</i>	<u>\$ 2,472,466</u>	<u>\$ 545,447</u>	<u>\$ 475,235</u>	<u>\$ 92,745</u>	<u>\$ 3,585,893</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, 2009*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$ 4,225,300	\$ 4,318,700	\$ 4,316,911	\$ (1,789)
Intergovernmental	5,133,980	5,157,281	5,155,392	(1,889)
Interest	100,000	129,260	118,268	(10,992)
Tuition and Fees	523,000	512,200	510,416	(1,784)
Charges for Services	-	10,500	10,284	(216)
Miscellaneous	8,400	21,400	20,925	(475)
<i>Total Receipts</i>	<u>9,990,680</u>	<u>10,149,341</u>	<u>10,132,196</u>	<u>(17,145)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,355,302	4,334,327	4,263,970	70,357
Special	1,201,765	1,109,932	1,068,228	41,704
Vocational	202,208	202,949	200,509	2,440
Other	1,556,999	1,589,736	1,545,561	44,175
Support Services:				
Pupil	583,448	603,544	570,346	33,198
Instructional Staff	209,370	218,211	207,690	10,521
Board of Education	17,412	17,493	15,109	2,384
Administration	977,116	975,750	944,674	31,076
Fiscal	295,904	301,324	289,262	12,062
Operation and Maintenance of Plant	1,080,034	1,079,018	1,035,497	43,521
Pupil Transportation	817,309	746,440	727,724	18,716
Extracurricular Activities	252,975	234,566	228,236	6,330
<i>Total Disbursements</i>	<u>11,549,842</u>	<u>11,413,290</u>	<u>11,096,806</u>	<u>316,484</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,559,162)</u>	<u>(1,263,949)</u>	<u>(964,610)</u>	<u>299,339</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditure	-	-	825	825
<i>Total Other Financing Sources (Uses)</i>	<u>-</u>	<u>-</u>	<u>825</u>	<u>825</u>
<i>Net Change in Fund Balance</i>	(1,559,162)	(1,263,949)	(963,785)	300,164
<i>Fund Balance Beginning of Year</i>	3,267,425	3,267,425	3,267,425	-
Prior Year Encumbrances Appropriated	114,811	114,811	114,811	
<i>Fund Balance End of Year</i>	<u>\$ 1,823,074</u>	<u>\$ 2,118,287</u>	<u>\$ 2,418,451</u>	<u>\$ 300,164</u>

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

**East Knox Local School District**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Fiduciary Fund*  
*June 30, 2009*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$54,126</u></u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$54,126</u></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, 2009*

**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 59 non-certified support personnel to provide services to approximately 1,294 students.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure 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 and the Ohio School Boards Association Worker's Compensation Group Rating Program which is an insurance purchasing pool. 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.A., these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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.

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

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

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

**B. Basis of Presentation - Fund Accounting**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

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

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

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

**B. Basis of Presentation - Fund Accounting (Continued)**

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

**Fiduciary Fund Types**

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

**C. Budgetary Process**

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

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

**Tax Budget**

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

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

**Estimated Resources**

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

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

**C. Budgetary Process (continued)**

**Appropriations**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of disbursements for the General Fund and at the fund level of disbursements 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 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 the general fund must be approved by the Board of Education.

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

**Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year disbursements for governmental 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 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, 2009

**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 when 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 capital assets 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 Activity**

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

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

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

**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, 2009

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

**L. Net Assets/Fund Balance**

GOVERNMENT-WIDE STATEMENTS

Net assets is displayed in the following 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. As of June 30, 2009, there were no net assets restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

FUND FINANCIAL STATEMENTS

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

**M. Receipts and Disbursements**

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 services and sales, 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.

**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 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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply; obligations are for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

As of June 30, 2009, the District had \$430 in undeposited cash on hand which is included in the fund balance.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

***Deposits***

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

At fiscal year end, the bank balance of the School District's deposits for checking, savings, and money market accounts was \$3,782,890. Of the bank balance, \$1,239,618 was covered by federal depository insurance and the remaining balance of \$2,543,272 was covered by a 105% public depository pool, which was collateralized with securities held by pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

***Investments***

Investments are reported at cash value. As of June 30, 2009, the District had the following investments:

	<u>Cost as of 6/30/2009</u>	<u>% of Investment Total</u>	<u>Maturities 0-1 Year</u>
STAROhio	\$ 223,841	100%	\$ 223,841
Total Investments	<u>\$ 223,841</u>	<u>100%</u>	<u>\$ 223,841</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 purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

***Credit Risk***

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District's investment policy allows the Treasurer to invest in those investments authorized by the Ohio Revised Code, and places additional limitations with amounts authorized for the investment in certain types. The School District has limited its investments to STAROhio, certificates of deposits, and U.S. government agencies securities.

***Concentration of Credit Risk***

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

*Custodial Risk*

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

**NOTE 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 2009 represent the collection of calendar year 2008 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 2009 were levied after April 1, 2008 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 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2008, were levied after April 1, 2008, and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received in calendar year 2009 (other than public utility property) represents the collection of 2009 taxes. Tangible personal property taxes received in calendar year 2009 were levied after April 1, 2008, on the value as of December 31, 2008.

Tangible personal property is currently assessed at six and one-quarter percent of true value. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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 District prior to June 30.

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces revenue lost by the District due to the phasing out of the tax. In calendar years 2006 through 2010, the District will be fully reimbursed at the level of calendar year 2004 assessed values for the lost revenue. In calendar years 2011 through 2017, the reimbursements will be phased out.

The School District receives property taxes from Knox, Coshocton, and Licking Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 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**  
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**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 2009, the School District contracted the Indiana Insurance Company for property and general liability insurance. There is a \$1,000 deductible and \$30,399,726 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 School District carries a \$3,000,000 blanket umbrella policy with Indiana Insurance Company.

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

**B. Workers' Compensation**

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

**NOTE 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 and survivor 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](http://www.ohsers.org), under *Employers/Audit Resources*.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B fund. 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 required pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$242,565, \$222,635, and \$219,408, respectively, which represents the required annual contribution for each year.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
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*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
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June 30, 2009

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
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**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal years ended June 30, 2009, 2008 and 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

The School District's contributions which were allocated for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$636,009, \$598,874, and \$591,612, respectively.

**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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
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June 30, 2009

**NOTE 7 - POST EMPLOYMENT BENEFITS**

*State Teachers Retirement System*

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan, a self-directed defined contribution plan; and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent comprehensive annual financial report by visiting [www.strsoh.org](http://www.strsoh.org) or by calling toll free at 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. The 14 percent employer contribution rate is the maximum rate established under Ohio law. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2009, 2008 and 2007. For the School District, this amount equaled \$45,429, \$42,777 and \$45,509 for fiscal years 2009, 2008, and 2007, respectively.

**Medicare Part B Plan**

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2009, 2008 and 2007, the actuarially required allocations were 0.75%, 0.66% and 0.68%, respectively. For the School District, contributions for the years ended June 30, 2009, 2008 and 2007 were \$8,420, \$10,496, and \$13,970, respectively, which equaled the required contributions for the year.

**Health Care Plan**

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2009, 2008 and 2007, the health care allocations were 4.16%, 4.18%, and 3.32%, respectively.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 7 - POST EMPLOYMENT BENEFITS (Continued)**

**Health Care Plan (Continued)**

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes do 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 2009, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For the School District, the contributions assigned to health care, including the surcharge, during the 2009, 2008 and 2007 fiscal years equaled \$77,357, \$52,796, and \$68,205, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

**NOTE 8 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2009 were as follows:

	<u>Outstanding June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2009</u>	<u>Due in One Year</u>
General Obligation Bonds					
Series 2004					
Serial 1.5%-4.42% \$3,110,000	\$ 2,190,000	\$ -	\$ 230,000	\$ 1,960,000	\$ 230,000
Capital Appreciation \$180,000	180,000	-	-	180,000	-
Series 2007					
Serial 4% \$5,795,000	5,545,000	-	5,000	5,540,000	5,000
Capital Appreciation \$259,986	259,986	-	-	259,986	-
Term 4%-4.125% \$3,895,000	3,895,000	-	-	3,895,000	-
Tax Anticipation Notes-Permanent Improvement	-	600,000	-	600,000	114,434
	<u>\$ 12,069,986</u>	<u>\$ 600,000</u>	<u>\$ 235,000</u>	<u>\$ 12,434,986</u>	<u>\$ 349,434</u>

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 8 - LONG-TERM OBLIGATIONS (Continued)**

A. Series 2004 General Obligation Bonds

This issuance consisted of serial bonds and capital appreciation bonds. This issuance included a premium of \$153,437. The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5% to 4.2%. The capital appreciation bonds mature December 1, 2013 and 2014. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. Total maturity of these capital appreciation bonds is \$510,000. Accretion for fiscal year 2009 amounted to \$12,750. The total estimated current accrued value of these bonds at June 30, 2009 is \$86,700.

B. Series 2007 General Obligation Bonds

The issuance consisted of serial bonds, term bonds, and capital appreciation bonds. This issuance included a premium of \$154,703. The serial bonds mature at varying amounts annually on December 1, beginning in 2007 and ending in 2028. The rates on these bonds range from 4% to 4.125%. The capital appreciation bonds mature December 1, 2015 and 2016. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. Total maturity of these capital appreciation bonds is \$730,000. The term bonds mature December 1, 2030 and 2034. Accretion for fiscal year 2009 amounted to \$7,300. The total estimated current accrued value of these bonds at June 30, 2009 is \$91,250.

C. Tax Anticipation Notes- Permanent Improvement

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

The annual requirement to amortize all long-term debt outstanding as of June 30, 2009 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	349,434	476,097	825,531
2011	352,152	463,210	815,362
2012	359,934	449,529	809,463
2013	377,782	434,764	812,546
2014	385,699	423,975	809,674
2015-2019	2,750,000	1,993,388	4,743,388
2020-2024	2,150,000	1,413,675	3,563,675
2025-2029	2,615,000	1,065,575	3,680,575
2030-2034	3,180,000	484,622	3,664,622
2035	715,000	14,747	729,747
Total	<u>\$ 13,235,000</u>	<u>\$ 7,219,582</u>	<u># \$ 20,454,582</u>

The principal in the above amortization does not agree to the principal in the table on page 28 as the above amortization schedule includes total accrued value of the School District's capital appreciation bonds.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
*(CONTINUED)*  
June 30, 2009

**NOTE 9 - SHORT-TERM OBLIGATIONS**

The changes in the School District's short-term obligations during fiscal year 2009 were as follows:

	<u>Outstanding June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2009</u>
Bond Anticipation Notes				
Series 2009 2.75%\$2,410,000	\$ 0	\$ 2,410,000	\$ 0	\$ 2,410,000
Series 2008 3.00% \$2,800,000	<u>2,800,000</u>	<u>0</u>	<u>2,800,000</u>	<u>0</u>
	<u>\$ 2,800,000</u>	<u>\$ 2,410,000</u>	<u>\$ 2,800,000</u>	<u>\$ 2,410,000</u>

Proceeds from the sale of the Series 2009 Bond Appreciations Notes as well as property tax receipts were used to pay off the Series 2008 that matured on March 10, 2009. The Series 2009 Bond Anticipation Notes have a maturity date of March 3, 2010. This issuance included a premium of \$12,966.

**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.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal years 2009.

	<u>Textbook Instructional Materials Reserve</u>	<u>Capital Improvement Reserve</u>	<u>Total</u>
Set-Aside Reserve Balance as of June 30, 2008	\$ (113,121)	\$ 0	\$ (113,121)
Current Year Set-Aside Requirement	187,605	187,605	375,210
Current Year Offsets	0	0	0
Qualifying Disbursements	<u>(186,021)</u>	<u>(189,882)</u>	<u>(375,903)</u>
Totals	<u>\$ (111,537)</u>	<u>\$ (2,277)</u>	<u>\$ (113,814)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (111,537)</u>	<u>\$ 0</u>	
Set-Aside Reserve Balance as of June 30, 2009	<u>\$ 0</u>	<u>\$ 0</u>	

The School District had qualifying disbursements during the year that reduced the textbooks and the capital improvements set-aside 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.

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
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June 30, 2009

**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 \$39,418 to TRECA during fiscal year 2009 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.

**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, 2009.

**NOTE 13-BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance-Budget and Actual-Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances, which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding for year ended June 30, 2009 amounted to \$54,015.

**NOTE 14-COMPLIANCE**

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

**EAST KNOX LOCAL SCHOOL DISTRICT**  
**KNOX COUNTY**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS*  
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June 30, 2009

**NOTE 15-SIGNIFICANT CONTRACTUAL COMMITMENTS**

The School District had the following contractual commitments outstanding as of June 30, 2009:

<u>Contractor</u>	<u>Purpose</u>	<u>Commitment</u>
Adena Corporation	Building Construction	\$ 52,965
Adena Corporation	Stadium Renovation	\$ 44,887
Claypool Electric	Building Construction	\$ 46,736
Continental Office	Furniture	\$ 17,846
Crossbow Systems	Building Construction	\$ 4,549
C and T Design and Equip	Building Construction	\$ 24,828
Data Eclipse	Building Construction	\$ 3,680
Guenther Mechanical	Building Construction	\$ 43,250
Modern Builders	Building Construction	\$ 16,046
Sound Com Systems	Building Construction	\$ 3,506
S. S. Sprinkler	Building Construction	\$ 8,250

East Knox Local School District  
Knox County  
Schedule of Federal Awards Receipts and Expenditures  
For the Year Ended June 30, 2009

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>United States Department of Agriculture</u></b>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	O5PU	10.553	\$ 69,499	\$ -	\$ 69,499	\$ -
National School Lunch Program	LLP4	10.555	180,504	18,125	180,504	18,125
Total Nutrition Cluster			250,003	18,125	250,003	18,125
<b>Total United States Department of Agriculture</b>			250,003	18,125	250,003	18,125
<b><u>United States Department of Education</u></b>						
<i>Passed through Ohio Department of Education</i>						
Title I Grants to Local Education Agencies	C1S1	84.010	297,062	-	302,684	-
Special Education - Grants to States	6BSF	84.027	242,868	-	248,167	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	3,003	-	3,003	-
State Grants for Innovative Programs	C2S1	84.298	895	-	1,954	-
Education Technology State Grants	TJS1	84.318	2,853	-	2,853	-
Improving Teacher Quality State Grants	TRS1	84.367	36,184	-	35,636	-
<b>Total United States Department of Education</b>			582,865	-	594,297	-
<b>Total Federal Financial Assistance</b>			\$ 832,868	\$ 18,125	\$ 844,300	\$ 18,125

See accompanying notes to the schedule of federal awards receipts and expenditures.

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

Notes to the Schedule of Federal Awards Receipts and Expenditures  
For the Fiscal Year Ended June 30, 2009

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures 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.

**NOTE B -FOOD DONATION**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.



**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  
23227 Coshocton Road  
Howard, Ohio 43028

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 (the School District) as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 28, 2009. We also noted that the School District follows the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial misstatement.

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

East Knox Local School District

Knox County

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*

Page 2

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-001.

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

We also noted certain noncompliance issues not requiring inclusion in this report that we reported to the School District's management in a separate letter dated September 28, 2009.

This report is intended solely for the information and use of management, members of the Board, and federal awarding agencies and pass-through entities, we intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

September 28, 2009



**Report on Compliance With Requirements Applicable to Each Major Federal Program and  
on Internal Control Over Compliance in Accordance with OMB Circular A-133**

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

**Compliance**

We have audited the compliance of the East Knox Local School District, Knox County (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 program for the year ended June 30, 2009. 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 Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2009.

**Internal Control Over Compliance**

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

East Knox Local School District

Knox County

Report on Compliance With Requirements Applicable to Each Major Federal Program and  
on Internal Control Over Compliance in Accordance With OMB Circular A - 133

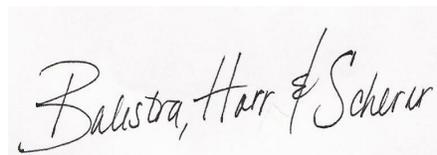
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A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal controls will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of the 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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Members of the Board, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

September 28, 2009

EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

**SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to States, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY  
JUNE 30, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505

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

**Finding Number 2009-001**

**Noncompliance Citation**

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

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. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District prepare its annual financial report in accordance with generally accepted accounting principles.

**Client Response**

The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**EAST KNOX LOCAL SCHOOL DISTRICT  
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
*OMB CIRCULAR A-133 §.315(b)*  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	A noncompliance citation was Issued for Ohio Revised Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: Reissued as Finding Number 2009-001.



### Independent Auditor's Report on Applying Agreed-Upon Procedures

East Knox Local School District  
Knox County  
23227 Coshocton Road  
Howard, Ohio 43028

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on March 13, 2006.
2. We read the policy, noting it included the following requirements from the Ohio Rev. Code Section 3313.666(B)
  - 1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - 2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.66;
  - 3) A procedure for reporting prohibited incidents;
  - 4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - 5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  - 6) A procedure for documenting any prohibited incident that is reported;
  - 7) A procedure for responding to and investigating any reported incident;

- 8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- 9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United State;
- 10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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



Balestra, Harr & Scherer, CPAs, Inc.

September 28, 2009



**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**  
**JANUARY 28, 2010**