

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

BASIC FINANCIAL STATEMENTS

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2016***

JESSICA BUSENBURG, CPA, TREASURER



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the East Knox Local School District, Knox County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 28, 2016

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**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

To the Members of the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Knox Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in Note 3 to the basic financial statements, during fiscal year 2016, the East Knox Local District changed the presentation of its annual financial report from the cash basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America. We did not modify our opinion regarding this matter.

As described in Note 17 to the basic financial statements, on February 5, 2015, the Auditor of State declared the East Knox Local School District to be in a state of fiscal emergency as defined by Ohio Revised Code Section 3316.03(B)(3). We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, on our consideration of the East Knox Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Knox Local School District's internal control over financial reporting and compliance.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The management's discussion and analysis of the East Knox Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The total net position of governmental activities increased \$1,714,730, which represents a 20.56% increase from fiscal year 2015's restated net position.
- General revenues accounted for \$11,153,330 in revenue or 83.51% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$2,201,914 or 16.49% of total revenues of \$13,355,244.
- The District had \$11,640,514 in expenses related to governmental activities; only \$2,201,914 of these expenses were offset by program specific charges for services and sales, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,153,330 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$10,668,048 in revenues and \$9,645,555 in expenditures. During fiscal 2016, the general fund's fund balance increased \$1,022,493 from \$2,429,983 to \$3,452,476.
- The bond retirement fund had \$1,068,247 in revenues and \$1,092,785 in expenditures. During fiscal 2016, the bond retirement fund's fund balance decreased \$24,538 from \$1,201,110 to \$1,176,572.

Using These Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net position* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and the bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net position and statement of activities can be found on pages 18-19 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund, accounts for medical, vision, dental and prescription benefits self-insurance. The basic proprietary fund financial statements can be found on pages 25-27 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position on page 28. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-63 of this report.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net position liability. The required supplementary information can be found on pages 64 through 70 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The District as a Whole

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

The table below provides a summary of the District's net position at June 30, 2016. This is the District's first year for government-wide financial statements using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

	Net Position Governmental Activities <u>2016</u>
<u>Assets</u>	
Current and other assets	\$ 10,863,657
Capital assets, net	<u>11,000,718</u>
Total assets	<u>21,864,375</u>
<u>Deferred outflows of resources</u>	
Pension	<u>1,047,740</u>
Total deferred outflows of resources	<u>1,047,740</u>
<u>Liabilities</u>	
Current liabilities	1,003,191
Long-term liabilities	<u>23,067,312</u>
Total liabilities	<u>24,070,503</u>
<u>Deferred inflows of resources</u>	
Property taxes levied for the next fiscal year	4,030,841
Pension	<u>1,436,854</u>
Total deferred inflows of resources	<u>5,467,695</u>
<u>Net Position</u>	
Net investment in capital assets	(184,223)
Restricted	1,580,863
Unrestricted (deficit)	<u>(8,022,723)</u>
Total net position	<u>\$ (6,626,083)</u>

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

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

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

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

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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$6,626,083.

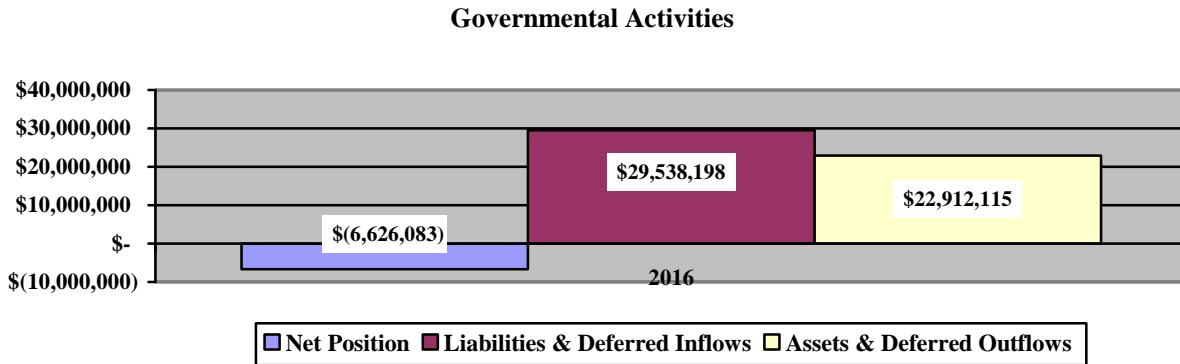
**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

At year end, capital assets represented 50.31% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2016, was (\$184,223). These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$1,580,863, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net position.

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



The table below shows the change in net position for fiscal year 2016. This is the District's first year for government-wide financial statements using the accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

	Change in Net Position Governmental Activities <u>2016</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 858,883
Operating grants and contributions	1,343,031
General revenues:	
Property taxes	6,375,530
Grants and entitlements	4,732,248
Investment earnings	13,285
Miscellaneous	<u>32,267</u>
Total revenues	<u>\$ 13,355,244</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities <u>2016</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 2,886,673
Special	1,469,762
Vocational	187,955
Other	2,166,018
Support services:	
Pupil	616,813
Instructional staff	181,835
Board of education	14,965
Administration	898,663
Fiscal	335,863
Operations and maintenance	925,587
Pupil transportation	573,267
Central	148,753
Operation of non-instructional services:	
Other non-instructional services	23,609
Food service operations	488,866
Extracurricular activities	229,678
Interest and fiscal charges	<u>492,207</u>
Total expenses	<u>11,640,514</u>
Change in net position	1,714,730
Net position at beginning of year (restated)	<u>(8,340,813)</u>
Net position at end of year	<u>\$ (6,626,083)</u>

Governmental Activities

Net position of the District's governmental activities increased \$1,714,730 over the 2015 restated balance. Total governmental expenses of \$11,640,514 were offset by program revenues of \$2,201,914 and general revenues of \$11,153,330. Program revenues supported 18.92% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 83.17% of total governmental revenue.

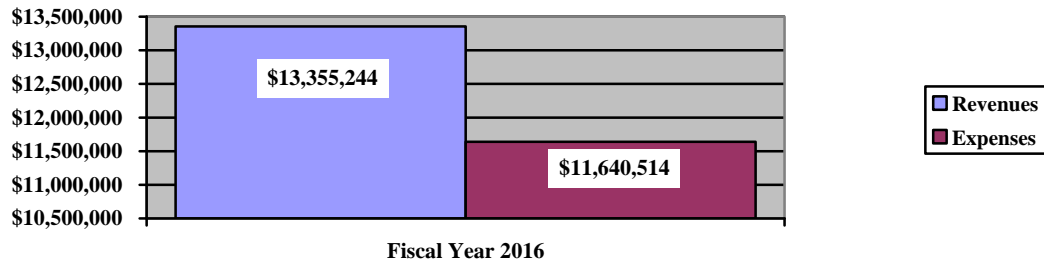
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,710,408 or 57.65% of total governmental expenses for fiscal year 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>
Program expenses		
Instruction:		
Regular	\$ 2,886,673	\$ 2,407,614
Special	1,469,762	555,911
Vocational	187,955	162,248
Other	2,166,018	2,116,322
Support services:		
Pupil	616,813	607,096
Instructional staff	181,835	148,095
Board of education	14,965	14,965
Administration	898,663	787,817
Fiscal	335,863	335,863
Operations and maintenance	925,587	925,507
Pupil transportation	573,267	571,120
Central	148,753	148,753
Operation of non-instructional services:		
Other non-instructional services	23,609	23,609
Food service operations	488,866	29,675
Extracurricular activities	229,678	111,798
Interest and fiscal charges	492,207	492,207
Total expenses	<u>\$ 11,640,514</u>	<u>\$ 9,438,600</u>

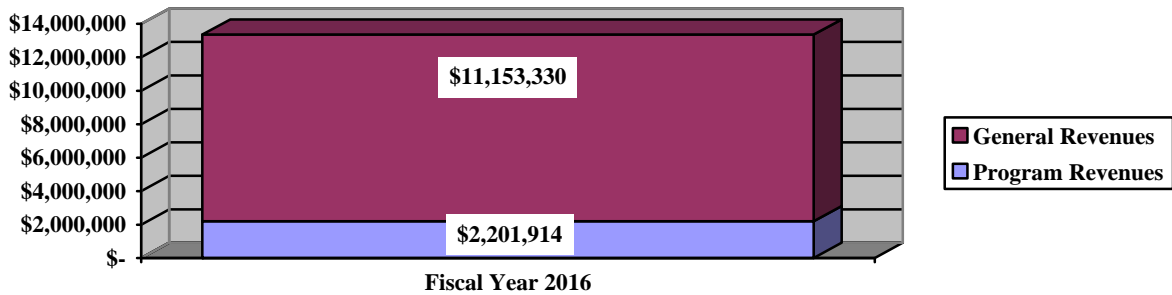
**EAST KNOX LOCAL SCHOOL DISTRICT
KNOX COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The dependence upon tax and other general revenues for governmental activities is apparent; 78.12% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.08%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2016.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$5,084,566, which is a higher balance than last year's restated total balance of \$38,159,656. The District restated June 30, 2015 balances for the application of GAAP as described in Note 3.A.

	Fund Balance <u>June 30, 2016</u>	Restated Fund Balance <u>June 30, 2015</u>	Increase (Decrease)
General	\$ 3,452,476	\$ 2,429,983	\$ 1,022,493
Bond retirement	1,176,572	1,201,110	(24,538)
Other governmental	<u>455,518</u>	<u>498,906</u>	<u>(43,388)</u>
Total	<u>\$ 5,084,566</u>	<u>\$ 4,129,999</u>	<u>\$ 954,567</u>

General Fund

The County's general fund balance increased \$1,022,493. The primary revenue source of the general fund is property tax revenues. Property tax revenues represent \$5,076,196 or 47.58% of general fund revenues. Intergovernmental revenue makes up \$4,885,071 or 45.79% of the general fund revenues. These primarily consist of local governmental revenues from the State.

The largest expenditure of the general fund is instruction which total \$6,021,266 or 62.43% of general fund expenditures. Instruction expenditures consist of primarily of District employee wages and benefits.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	2016 <u>Amount</u>
<u>Revenues</u>	
Taxes	\$ 5,076,196
Tuition	528,859
Earnings on investments	12,229
Intergovernmental	4,885,071
Other revenues	<u>165,693</u>
 Total	 <u>\$ 10,668,048</u>
 <u>Expenditures</u>	
Instruction	\$ 6,021,266
Support services	3,430,812
Operation of non-instructional	24,394
Extracurricular activities	154,781
Debt service	<u>14,302</u>
 Total	 <u>\$ 9,645,555</u>

Bond Retirement Fund

The bond retirement fund had \$1,068,247 in revenues and \$1,092,785 in expenditures. During fiscal 2016, the bond retirement fund's fund balance decreased \$24,538 from \$1,201,110 to \$1,176,572.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$10,498,253, which was higher than the original budgeted revenues and other financing sources of \$9,988,700. Actual revenues and other financing sources for fiscal 2016 were \$10,503,986 which was \$5,733 higher than the final budgeted revenues.

General fund original appropriations of \$10,292,636 were decreased to \$9,897,283 in the final budget. The actual budget basis expenditures for fiscal year 2016 totaled \$9,704,585, which was \$192,698 less than the final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$11,000,718 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2016 balances compared to the 2015:

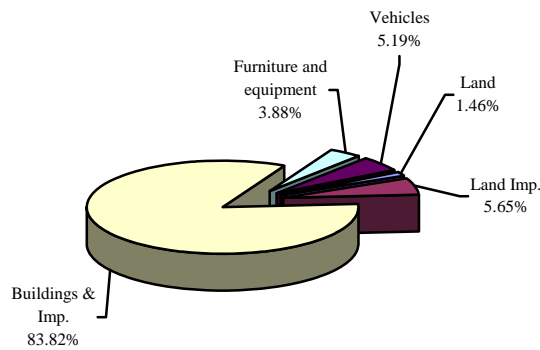
**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2016	2015
Land	\$ 160,330	\$ 160,330
Land improvements	621,227	685,327
Building and improvements	9,221,179	9,562,465
Furniture and equipment	427,184	462,862
Vehicles	570,798	236,210
Total	\$ 11,000,718	\$ 11,107,194

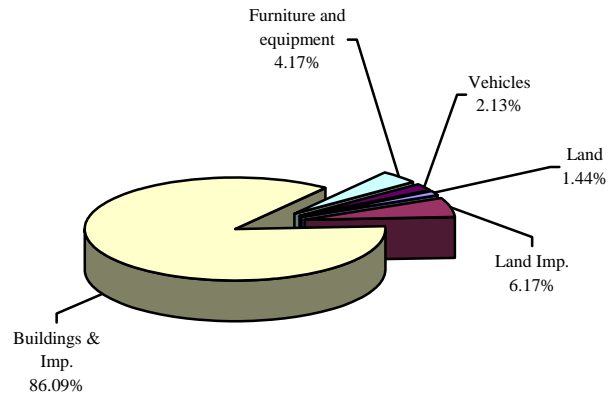
The overall decrease in capital assets of \$106,476 is due to depreciation expense of \$535,859 and net disposals of \$29,406 exceeding capital outlays of \$458,789.

The graphs below present the District's capital assets for fiscal years 2016 and 2015.

**Capital Assets - Governmental
Activities 2016**



**Capital Assets - Governmental
Activities 2015**



See Note 7 to the basic financial statements for additional information on the District's capital assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Debt Administration

At June 30, 2016, the District had \$11,255,134 in general obligation bonds outstanding. Of this total, \$605,134 is due within one year and \$10,650,000 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal year 2016 compared to 2015.

	Outstanding Debt, at Year End	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
General obligation bonds	\$ 11,255,134	\$ 11,818,722
Lease purchase agreement	<u>-</u>	<u>192,250</u>
Total	<u>\$ 11,255,134</u>	<u>\$ 12,010,972</u>

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

Current Financial Related Activities

The most significant issue for the District at this time is the general fund financial situation. There was deficit spending in 2007, 2008, 2009, 2010, 2011, 2012, and 2013. The Board worked prudently for several years to build a cash balance for situations like this, but the balance has dwindled due to deficit spending for the past seven years. The District approved over \$500,000 in budget cuts for 2010, an additional \$600,000 in 2011, and further reductions were made to start the 2011-2012 school year. Most of the cuts were personnel related. The District had high staff turnover in 2012-2013, 2013-2014, 2014-2015, and 2015-2016. In addition, an elementary K-4 building was closed and the District consolidated to two buildings (K-6) and 7-12. As a result, the District finished 2013-2014, 2014-2015, and 2015-2016 with an operating surplus.

Real estate taxes had shown steady increases until 2009. For the past three years revenues had declined or remained stable. Tax revenues increased approximately \$70,000 for 2013, \$12,000 for 2014, \$250,000 for 2015, and 214,000 for 2016. The District has also experienced a decrease in tangible personal property tax receipts due to the tax being phased out. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

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

The District has seen no increase in State revenue over the past few years, until 2013 and 2014. For fiscal years 2007, 2008, and 2009 the District was on the state guarantee. The District was again on the guarantee for 2010 and realized a 1% reduction in State funding due to the passing of HB153 of the biennial State budget. In 2011, the District received a 2% reduction in State funding. Only being guaranteed the same amount or even less each year although enrollment had increased has made it difficult for the District. This has largely contributed to the decrease in fund balance for fiscal years 2007, 2008, 2009, 2010, 2011, 2012, and 2013. The District received an additional \$376,000 reduction in state funding in 2012 plus approximately \$72,000 in lost tangible personal property tax reimbursement. State revenues increased approximately \$160,000 for 2014 due to the receipt of casino money and preschool funding being routed through the local school district rather than the local educational service center. State revenues decreased approximately \$28,000 for 2015 due to lower preschool funding being received.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

The District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jessica Busenburg, Treasurer of East Knox Local School District, 23201 Coshocton Road, Howard, Ohio 43028.

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

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,741,058
Cash with fiscal agent	209,722
Receivables:	
Property taxes	6,760,560
Accounts.	10,534
Intergovernmental	70,127
Prepayments	55,432
Materials and supplies inventory.	7,164
Inventory held for resale.	9,060
Capital assets:	
Nondepreciable capital assets	160,330
Depreciable capital assets, net.	10,840,388
Capital assets, net	11,000,718
Total assets.	21,864,375
 Deferred outflows of resources:	
Pension - STRS	846,638
Pension - SERS	201,102
Total deferred outflows of resources	1,047,740
 Liabilities:	
Accounts payable.	44,299
Accrued wages and benefits payable	609,002
Intergovernmental payable	44,684
Pension obligation payable.	107,262
Accrued interest payable	35,476
Claims payable.	162,468
Long-term liabilities:	
Due within one year.	693,107
Due in more than one year:	
Net pension liability	11,260,219
Other amounts due in more than one year	11,113,986
Total liabilities	24,070,503
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	4,030,841
Pension - STRS.	1,159,363
Pension - SERS.	277,491
Total deferred inflows of resources	5,467,695
 Net position:	
Net investment in capital assets	(184,223)
Restricted for:	
Capital projects	420,417
Debt service.	1,014,258
Locally funded programs	10,603
Federally funded programs	16,167
Student activities	14,164
Other purposes	105,254
Unrestricted (deficit).	(8,022,723)
Total net position.	\$ (6,626,083)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,886,673	\$ 479,059	\$ -	\$ (2,407,614)
Special	1,469,762	88,301	825,550	(555,911)
Vocational	187,955	-	25,707	(162,248)
Other	2,166,018	-	49,696	(2,116,322)
Support services:				
Pupil	616,813	-	9,717	(607,096)
Instructional staff	181,835	-	33,740	(148,095)
Board of education	14,965	-	-	(14,965)
Administration	898,663	37,665	73,181	(787,817)
Fiscal	335,863	-	-	(335,863)
Operations and maintenance	925,587	80	-	(925,507)
Pupil transportation	573,267	2,147	-	(571,120)
Central	148,753	-	-	(148,753)
Operation of non-instructional services:				
Other non-instructional services	23,609	-	-	(23,609)
Food service operations	488,866	144,448	314,743	(29,675)
Extracurricular activities	229,678	107,183	10,697	(111,798)
Interest and fiscal charges	492,207	-	-	(492,207)
Total governmental activities	\$ 11,640,514	\$ 858,883	\$ 1,343,031	(9,438,600)
General revenues:				
Property taxes levied for:				
General purposes				4,865,147
Debt service				895,977
Capital outlay				614,406
Grants and entitlements not restricted to specific programs				4,732,248
Investment earnings				13,285
Miscellaneous				32,267
Total general revenues				11,153,330
Change in net position				1,714,730
Net position at beginning of year (restated)				(8,340,813)
Net position at end of year				\$ (6,626,083)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents.	\$ 2,547,016	\$ 890,947	\$ 303,095	\$ 3,741,058
Receivables:				
Property taxes.	5,142,475	960,472	657,613	6,760,560
Accounts	9,389	-	1,145	10,534
Intergovernmental.	4,078	-	66,049	70,127
Prepayments.	55,432	-	-	55,432
Materials and supplies inventory.	5,646	-	1,518	7,164
Inventory held for resale.	-	-	9,060	9,060
Total assets	<u>7,764,036</u>	<u>1,851,419</u>	<u>1,038,480</u>	<u>10,653,935</u>
Liabilities:				
Accounts payable	38,754	-	5,545	44,299
Accrued wages and benefits payable	541,014	-	67,988	609,002
Compensated absences payable	22,055	-	-	22,055
Intergovernmental payable	43,835	-	849	44,684
Pension obligation payable	97,321	-	9,941	107,262
Total liabilities.	<u>742,979</u>	<u>-</u>	<u>84,323</u>	<u>827,302</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	3,055,388	579,275	396,178	4,030,841
Delinquent property tax revenue not available.	510,375	95,572	65,213	671,160
Intergovernmental revenue not available.	382	-	36,103	36,485
Miscellaneous revenue not available.	2,436	-	1,145	3,581
Total deferred inflows of resources	<u>3,568,581</u>	<u>674,847</u>	<u>498,639</u>	<u>4,742,067</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	5,646	-	1,518	7,164
Prepays.	55,432	-	-	55,432
Restricted:				
Debt service	-	1,176,572	-	1,176,572
Capital improvements	-	-	355,204	355,204
Food service operations	-	-	103,736	103,736
Other purposes.	-	-	10,603	10,603
Extracurricular.	-	-	13,019	13,019
Committed:				
Student and staff support	28,655	-	-	28,655
Assigned:				
Student instruction	2,548	-	-	2,548
Student and staff support.	53,207	-	-	53,207
School supplies	60,725	-	-	60,725
Unassigned (deficit)	3,246,263	-	(28,562)	3,217,701
Total fund balances	<u>3,452,476</u>	<u>1,176,572</u>	<u>455,518</u>	<u>5,084,566</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 7,764,036</u>	<u>\$ 1,851,419</u>	<u>\$ 1,038,480</u>	<u>\$ 10,653,935</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total governmental fund balances		\$	5,084,566
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,000,718
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	671,160	
Accounts receivable		3,581	
Intergovernmental receivable		36,485	
Total		711,226	711,226
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			47,254
Unamortized premiums on bonds issued are not recognized in the funds.			(152,217)
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows/outflows are not reported in governmental funds.			
Deferred outflows - Pension		1,047,740	
Deferred inflows - Pension		(1,436,854)	
Net pension liability		(11,260,219)	
Total		(11,649,333)	(11,649,333)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(35,476)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(11,255,134)	
Compensated absences		(377,687)	
Total		(11,632,821)	(11,632,821)
Net position of governmental activities		\$	(6,626,083)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 5,076,196	\$ 934,600	\$ 639,365	\$ 6,650,161
Tuition.	528,859	-	-	528,859
Transportation fees.	2,147	-	-	2,147
Earnings on investments	12,229	52	249	12,530
Charges for services	-	-	144,485	144,485
Extracurricular.	48,240	-	58,878	107,118
Classroom materials and fees	37,650	-	-	37,650
Rental income	80	-	-	80
Contributions and donations	850	-	2,101	2,951
Contract services.	37,665	-	-	37,665
Other local revenues	39,061	-	4,770	43,831
Intergovernmental - state	4,753,329	133,595	98,594	4,985,518
Intergovernmental - federal	131,742	-	922,144	1,053,886
Total revenues	<u>10,668,048</u>	<u>1,068,247</u>	<u>1,870,586</u>	<u>13,606,881</u>
Expenditures:				
Current:				
Instruction:				
Regular.	2,669,213	-	51,213	2,720,426
Special	1,040,259	-	477,867	1,518,126
Vocational	192,221	-	981	193,202
Other	2,119,573	-	49,529	2,169,102
Support services:				
Pupil	646,592	-	11,296	657,888
Instructional staff	138,765	-	32,649	171,414
Board of education	15,292	-	-	15,292
Administration	824,228	-	88,347	912,575
Fiscal	299,782	20,101	18,157	338,040
Operations and maintenance	783,332	-	166,746	950,078
Pupil transportation	572,875	-	314,360	887,235
Central	149,946	-	3,654	153,600
Operation of non-instructional services:				
Other operation of non-instructional.	24,394	-	-	24,394
Food service operations.	-	-	436,021	436,021
Extracurricular activities	154,781	-	81,765	236,546
Debt service:				
Principal retirement.	14,051	620,000	178,199	812,250
Interest and fiscal charges	251	452,684	3,190	456,125
Total expenditures	<u>9,645,555</u>	<u>1,092,785</u>	<u>1,913,974</u>	<u>12,652,314</u>
Net change in fund balances	1,022,493	(24,538)	(43,388)	954,567
Fund balances at beginning of year (restated).	<u>2,429,983</u>	<u>1,201,110</u>	<u>498,906</u>	<u>4,129,999</u>
Fund balances at end of year.	<u>\$ 3,452,476</u>	<u>\$ 1,176,572</u>	<u>\$ 455,518</u>	<u>\$ 5,084,566</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds	\$	954,567
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 458,789	
Current year depreciation	(535,859)	
Total		(77,070)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(29,406)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(274,631)	
Tuition	(1,520)	
Extracurricular	1,133	
Classroom materials and fees	1,303	
Miscellaneous	(658)	
Intergovernmental	21,732	
Total		(252,641)
Repayment of bond and lease purchase agreements are an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		812,250
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
(Increase) decrease in accrued interest payable	802	
Accreted interest on capital appreciation bonds	(56,412)	
Amortization of bond issuance costs	19,528	
Total		(36,082)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		601,911
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(439,036)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		25,684
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		154,553
Change in net position of governmental activities	\$	1,714,730

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 4,635,108	\$ 4,872,937	\$ 4,872,759	\$ (178)
Tuition.	497,072	522,577	522,578	1
Transportation fees.	2,140	2,250	2,147	(103)
Earnings on investments	12,841	13,500	12,229	(1,271)
Extracurricular.	46,102	48,467	46,847	(1,620)
Classroom materials and fees	666	700	643	(57)
Rental income	76	80	80	-
Contributions and donations	809	850	850	-
Contract services.	35,827	37,665	37,665	-
Other local revenues	23,780	25,000	23,759	(1,241)
Intergovernmental - state	4,548,252	4,781,623	4,780,688	(935)
Intergovernmental - federal	128,180	134,757	145,894	11,137
Total revenues	<u>9,930,853</u>	<u>10,440,406</u>	<u>10,446,139</u>	<u>5,733</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,760,487	2,653,933	2,649,701	4,232
Special.	1,111,390	1,068,492	1,046,155	22,337
Vocational.	201,651	193,868	192,483	1,385
Other.	2,209,275	2,124,000	2,111,924	12,076
Support services:				
Pupil.	700,430	673,394	640,388	33,006
Instructional staff	163,815	157,492	151,043	6,449
Board of education	17,306	16,638	16,135	503
Administration.	885,068	850,906	824,689	26,217
Fiscal	329,582	316,861	304,929	11,932
Operations and maintenance.	880,582	846,593	810,162	36,431
Pupil transportation	614,806	591,075	575,585	15,490
Central.	183,007	175,943	157,666	18,277
Other operation of non-instructional services	27,162	26,114	24,449	1,665
Extracurricular activities.	158,075	151,974	149,276	2,698
Total expenditures	<u>10,242,636</u>	<u>9,847,283</u>	<u>9,654,585</u>	<u>192,698</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(311,783)</u>	<u>593,123</u>	<u>791,554</u>	<u>198,431</u>
Other financing sources (uses):				
Refund of prior year's expenditures	5,847	5,847	5,847	-
Transfers in	50,000	50,000	50,000	-
Transfers (out).	(50,000)	(50,000)	(50,000)	-
Sale of capital assets	2,000	2,000	2,000	-
Total other financing sources (uses)	<u>7,847</u>	<u>7,847</u>	<u>7,847</u>	<u>-</u>
Net change in fund balance	(303,936)	600,970	799,401	198,431
Fund balance at beginning of year	1,530,647	1,530,647	1,530,647	-
Prior year encumbrances appropriated	58,030	58,030	58,030	-
Fund balance at end of year	<u>\$ 1,284,741</u>	<u>\$ 2,189,647</u>	<u>\$ 2,388,078</u>	<u>\$ 198,431</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 209,722
Total assets.	<u>209,722</u>
Liabilities:	
Claims payable	<u>162,468</u>
Total liabilities	<u>162,468</u>
Net position:	
Unrestricted.	<u>47,254</u>
Total net position.	<u><u>\$ 47,254</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,702,909
Total operating revenues	<u>1,702,909</u>
Operating expenses:	
Claims	1,549,360
Total operating expenses	<u>1,549,360</u>
Operating income	<u>153,549</u>
Nonoperating revenues:	
Interest revenue	1,004
Total nonoperating revenues	<u>1,004</u>
Change in net position	154,553
Net position at beginning of year (restated) . .	<u>(107,299)</u>
Net position at end of year	<u>\$ 47,254</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash receipts from charges for services	\$ 1,702,909
Cash payments for contractual services	<u>(1,608,890)</u>
Net cash provided by operating activities	<u>94,019</u>
Cash flows from investing activities:	
Interest received	<u>1,004</u>
Net cash provided by investing activities	<u>1,004</u>
Net increase in cash and cash equivalents	95,023
Cash and cash equivalents at beginning of year . . .	<u>114,699</u>
Cash and cash equivalents at end of year	<u><u>\$ 209,722</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 153,549
Changes in assets and liabilities:	
Decrease in claims payable	<u>(59,530)</u>
Net cash provided by operating activities	<u><u>\$ 94,019</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2016

	Agency
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 43,625
Total assets.	\$ 43,625
Liabilities:	
Intergovernmental payable	\$ 720
Held for student activities	42,905
Total liabilities	\$ 43,625

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 1 - DESCRIPTION OF THE DISTRICT

East Knox Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected, five-member Board. The Board controls the Local District staffed by 62 certified teaching personnel, 42 non-certified support personnel and 8 administrative personnel to provide services to approximately 1,242 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

META Solutions

The District is a participant in the META Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and Metropolitan Educational Council (MEC). META Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. During fiscal year 2016, the District paid META Solutions \$20,560 for services. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

INSURANCE PURCHASING POOLS

Sheakley Worker's Compensation Group Rating Plan

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

Ohio School Plan

The Ohio School Plan (the "Plan") is a shared liability, property and fleet insurance risk pool which is governed by a Board of thirteen school superintendents, business managers and treasurers. Harcum-Schuett, the insurance agency, has one board seat. OSBA, BASA and OASBO executive directors serve as ex-officio members. Over 300 educational entities are served by the Plan. The Plan's board elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Plan. All Plan revenues are generated from charges for services. For more information, write to the Ohio School Plan, Hylant Administrative Services, LLC., 811 Madison Avenue, P.O. Box 2083, Toledo, Ohio 43603.

The Jefferson Health Plan

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

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

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

GOVERNMENTAL FUNDS

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

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

Bond retirement fund - The bond retirement fund accounts for receipts and proceeds of bond/note issuances derived from levies used for the retirement of debt and related interest.

The other governmental funds of the District account for (a) financial resources that are restricted to expenditures for all construction related disbursements and permanent improvement disbursements, and (b) specific revenue sources that are restricted to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation - Fund Accounting and Measurement Focus

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

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

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5).

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. See Note 11 for deferred outflows of resources related the District's net pension liability.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

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

E. Budgets

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

Tax Budget - Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

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

Appropriations - Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of disbursements for the general fund and the fund level for all other funds, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at the legal levels of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within the general fund must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

F. Cash and Investments

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

During fiscal year 2016, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2016.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$12,229, which includes \$4,824 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

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

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

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2016, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees at least 50 years of age with 10 years of service or any age with at least 15 years of service, were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

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

J. Prepayments

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

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

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

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

M. Net Position

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

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

N. Estimates

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2016, neither type of transaction occurred.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

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

P. Unamortized Bond Premium

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

A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 9.

Q. Pensions

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

R. Fair Value

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

S. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2016, the District has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

For the fiscal year ended June 30, 2016, the District has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the District has (1) converted its governmental funds to the modified accrual basis of accounting and (2) converted its proprietary funds and governmental activities to the accrual basis of accounting.

Modified Accrual Basis Adjustments – the conversion of the governmental funds from the cash-basis of accounting to the modified accrual basis of accounting required certain adjustments to be recorded at June 30, 2015 to the fund cash balances as previously reported to reflect the prior year's effect of adopting these new accounting principles.

Accrual Basis Adjustments – the conversion of the proprietary funds from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at June 30, 2015 to the net cash position as previously reported to reflect the prior year's effect of adopting these new accounting principles.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The restatement to the June 30, 2015 fund cash balances for the governmental funds follows:

	Fund Cash Balance <u>June 30, 2015</u>	Modified Accrual Basis <u>Adjustments</u>	Restated Fund Balance <u>July 1, 2015</u>
Governmental fund:			
General fund	\$ 1,670,500	\$ 759,483	\$ 2,429,983
Bond retirement fund	943,043	258,067	1,201,110
Other governmental funds	<u>371,931</u>	<u>126,975</u>	<u>498,906</u>
Total governmental funds	<u>\$ 2,985,474</u>	<u>\$ 1,144,525</u>	<u>\$ 4,129,999</u>

The restatement to the June 30, 2015 net cash position for the proprietary funds follows:

	Net Cash Position <u>June 30, 2015</u>	Accrual Basis <u>Adjustments</u>	Restated Net Position <u>July 1, 2015</u>
Proprietary funds:			
Internal service fund	\$ 114,699	\$ (221,998)	\$ (107,299)
Total proprietary funds	<u>\$ 114,699</u>	<u>\$ (221,998)</u>	<u>\$ (107,299)</u>

Under GAAP, the District's government-wide financial statements are prepared on the accrual basis of accounting. The government-wide financial statements show the District's programs for governmental activities. The conversion of the governmental activities from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at June 30, 2015 to the net cash position as previously reported to reflect the prior year's effect of adopting these new accounting principles.

Fiduciary Activities - Agency funds do not report fund balances; therefore no transition is required to restate the beginning net cash position.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The restatement to the June 30, 2015 net cash position for the governmental activities and business-type activities follows:

	<u>Activities</u>
Net cash position, June 30, 2015	\$ 3,100,173
Modified accrual basis adjustments	1,144,525
Internal service fund basic adjustments	(221,998)
Accrual basis adjustments:	
Capital assets, net	11,107,194
Long-term (deferred) assets	963,867
Deferred outflows	759,413
Net pension liability	(10,655,037)
Compensated absences payable	(403,371)
Accrued interest payable	(36,278)
Long-term debt	(12,182,717)
Deferred inflows	(1,916,584)
Restated net position, July 1, 2015	\$ (8,340,813)

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA, Part B	\$ 3,284
Title I, Disadvantaged Children	25,278

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

As of June 30, 2016, the District had \$350 in undeposited cash on hand which is included in the fund balance.

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2016 was \$209,722. This amount is not included in the “deposits” or “investments” reported below.

C. Deposits

At June 30, 2016, the carrying amount of all District deposits was \$3,268,325. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$595,033 of the District’s bank balance of \$3,285,623 was exposed to custodial risk as discussed below, while \$2,690,590 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

D. Investments

As of June 30, 2016, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		6 months or less
STAR Ohio	\$ 516,008	\$ 516,008

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District’s investment policy addresses interest rate risk by requiring that the District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 516,008	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,268,325
Cash with fiscal agent	209,722
Investments	516,008
Cash on hand	<u>350</u>
Total	<u>\$ 3,994,405</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,950,780
Agency fund	<u>43,625</u>
Total	<u>\$ 3,994,405</u>

NOTE 5 - PROPERTY TAXES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 5 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Knox County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2017 operations. The amount available as an advance at June 30, 2016 was \$1,576,712 in the general fund, \$285,625 in the bond retirement fund and \$196,222 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$1,373,275 in the general fund, \$258,067 in the bond retirement fund and \$173,014 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 261,828,510	97.41	\$ 263,689,770	96.96
Public utility personal	<u>6,956,310</u>	<u>2.59</u>	<u>8,257,810</u>	<u>3.04</u>
Total	<u>\$ 268,784,820</u>	<u>100.00</u>	<u>\$ 271,947,580</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$42.03		\$41.95	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Taxes	\$ 6,760,560
Accounts	10,534
Intergovernmental	<u>70,127</u>
Total	<u>\$ 6,841,221</u>

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance <u>06/30/15</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/16</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 160,330	\$ -	\$ -	\$ 160,330
Total capital assets, not being depreciated	<u>160,330</u>	<u>-</u>	<u>-</u>	<u>160,330</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,445,908	-	-	1,445,908
Buildings and improvements	14,239,292	-	-	14,239,292
Furniture and equipment	2,030,729	33,178	(21,181)	2,042,726
Vehicles	<u>1,021,322</u>	<u>425,611</u>	<u>(199,497)</u>	<u>1,247,436</u>
Total capital assets, being depreciated	<u>18,737,251</u>	<u>458,789</u>	<u>(220,678)</u>	<u>18,975,362</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(760,581)	(64,100)	-	(824,681)
Buildings and improvements	(4,676,827)	(341,286)	-	(5,018,113)
Furniture and equipment	(1,567,867)	(62,121)	14,446	(1,615,542)
Vehicles	<u>(785,112)</u>	<u>(68,352)</u>	<u>176,826</u>	<u>(676,638)</u>
Total accumulated depreciation	<u>(7,790,387)</u>	<u>(535,859)</u>	<u>191,272</u>	<u>(8,134,974)</u>
Governmental activities capital assets, net	<u>\$ 11,107,194</u>	<u>\$ (77,070)</u>	<u>\$ (29,406)</u>	<u>\$ 11,000,718</u>

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 288,477
Special	12,541
Vocational	2,339
<u>Support services:</u>	
Instructional staff	13,630
Administration	18,387
Fiscal	2,242
Operations and maintenance	35,930
Pupil transportation	84,631
Extracurricular activities	18,611
Food service operations	59,071
Total depreciation expense	<u>\$ 535,859</u>

NOTE 8 - CAPITAL LEASE - LESSEE DISCLOSURE

During fiscal year 2013, the District entered into a capital lease agreement to finance the cost of computer hardware. Capital lease payments for fiscal year 2016 have been reclassified and are reflected as principal retirement and interest in the amount of \$192,250 and \$3,441, respectively, in the general fund and the permanent improvement fund (a nonmajor governmental fund) on the statement of revenues, expenditures and changes in fund balances. These expenditures are reflected as program/function expenditures on a budgetary basis. The capital lease obligation was paid in full in fiscal year 2016.

Capital assets acquired by lease have been capitalized and depreciated as follows:

Governmental activities	
Capital assets, being depreciated:	
Furniture and equipment	\$ 765,595
Less: accumulated depreciation	
Furniture and equipment	<u>(765,595)</u>
<i>Total capital assets, being depreciated, net</i>	<u>\$ -</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS

A. During fiscal year 2016, the following activity occurred in governmental activities long-term obligations.

	(Restated)			Balance Outstanding June 30, 2016	Amounts Due in One Year
	Balance Outstanding June 30, 2015	Additions	Deductions		
<u>General Obligation Bonds:</u>					
Series 2004					
Serial 1.5%-4.42% \$3,110,000	\$ 1,015,000	\$ -	\$ (250,000)	\$ 765,000	\$ 255,000
Series 2007					
Serial 4% \$5,795,000	5,510,000	-	-	5,510,000	-
Capital Appreciation \$259,986	259,986	-	(137,262)	122,724	122,724
Accreted Interest	393,736	56,412	(227,738)	222,410	222,410
Term 4%-4.125% \$3,895,000	3,895,000	-	-	3,895,000	-
School Facilities Construction and Improvement Bonds - Series 2014					
Term 3.25%-5.5% \$750,000	745,000	-	(5,000)	740,000	5,000
<u>Other long-term obligations:</u>					
Lease Purchase Agreement	192,250	-	(192,250)	-	-
Compensated Absences	412,774	65,918	(78,950)	399,742	87,973
Net Pension Liability	10,655,037	605,182	-	11,260,219	-
Total governmental activities	<u>\$ 23,078,783</u>	<u>\$ 727,512</u>	<u>\$ (891,200)</u>	<u>22,915,095</u>	<u>\$ 693,107</u>
Add: unamortized premium				152,217	
Total on statement of net position				<u>\$ 23,067,312</u>	

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

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

Lease Purchase Agreements: See Note 8 for detail on the District's lease purchase agreement.

Series 2004 General Obligation Bonds: This issuance consisted of serial bonds and capital appreciation bonds. The serial bonds mature at varying amounts annually on December 1, beginning in 2004 and ending in 2018. The rates on these bonds range from 1.5% to 4.42%. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. The bonds will be retired through the bond retirement fund.

Series 2007 General Obligation Bonds: This issuance consisted of serial bonds, term bonds, and capital appreciation bonds. The serial bonds mature at varying amounts annually on December 1, beginning in 2007 and ending in 2028. The rates on these bonds range from 4% to 4.125%. The capital appreciation bonds mature December 1, 2015 and 2016. These bonds were purchased at a discount at the time of issuance and, at maturity, all compound interest is paid and the bond holder collects the face value. Total maturity of these capital appreciation bonds is \$730,000. The term bonds mature December 1, 2030 and 2034. The total estimated current accrued value of these bonds at June 30, 2016 is \$345,134. The bonds will be retired through the bond retirement fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

The annual requirement to amortize all bonds outstanding as of June 30, 2016 is as follows:

Fiscal Year	Current Interest and Term Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 260,000	\$ 442,546	\$ 702,546	\$ 122,724	\$ 242,276	\$ 365,000
2018	625,000	424,757	1,049,757	-	-	-
2019	640,000	399,111	1,039,111	-	-	-
2020	455,000	377,200	832,200	-	-	-
2021	475,000	359,050	834,050	-	-	-
2022 - 2026	2,675,000	1,479,214	4,154,214	-	-	-
2027 - 2031	3,080,000	869,764	3,949,764	-	-	-
2032 - 2035	2,700,000	228,320	2,928,320	-	-	-
Total	<u>\$ 10,910,000</u>	<u>\$ 4,579,962</u>	<u>\$ 15,489,962</u>	<u>\$ 122,724</u>	<u>\$ 242,276</u>	<u>\$ 365,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$14,396,720 (including available funds of \$1,176,572) and an unvoted debt margin of \$271,948.

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. For July 1, 2015 through June 30, 2016, the District contracted with Ohio School Plan and Hylant Administrative Services for property and general liability coverage. There was a \$1,000 deductible and \$32,848,030 limit.

The District has professional liability insurance with Ohio School Plan. Professional liability protection was set at \$4,000,000 per single occurrence limit and \$6,000,000 aggregate with no deductible.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 10 - RISK MANAGEMENT - (Continued)

The District property limit amount was reduced because the insurance carrier is no longer covering the vacant building that was closed in 2013. Settled claims have not exceeded coverage in any of the past three fiscal years.

B. Workers' Compensation

The District participates in the Sheakly Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria.

C. Employee Group Medical/Surgical and Dental Insurance

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of 95 school districts within the State, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$162,468 reported in the internal service fund at June 30, 2016 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Note: Information prior to fiscal year 2016 was unavailable.

Changes in claims activity for the past year is as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2016	\$ 221,998	\$ 1,549,360	\$ (1,608,890)	\$ 162,468

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

**EAST KNOX LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$159,981 for fiscal year 2016. Of this amount, \$12,498 is reported as pension obligation payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description –District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$441,930 for fiscal year 2016. Of this amount, \$75,496 is reported as pension obligation payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,462,603	\$ 8,797,616	\$ 11,260,219
Proportion of the net pension liability	0.04315740%	0.03183266%	
Pension expense	\$ 93,171	\$ 345,865	\$ 439,036

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 41,121	\$ 404,708	\$ 445,829
District contributions subsequent to the measurement date	<u>159,981</u>	<u>441,930</u>	<u>601,911</u>
Total deferred outflows of resources	<u>\$ 201,102</u>	<u>\$ 846,638</u>	<u>\$ 1,047,740</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 108,704	\$ 702,833	\$ 811,537
Changes in proportionate share	<u>168,787</u>	<u>456,530</u>	<u>625,317</u>
Total deferred inflows of resources	<u>\$ 277,491</u>	<u>\$ 1,159,363</u>	<u>\$ 1,436,854</u>

\$601,911 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (92,167)	\$ (279,072)	\$ (371,239)
2018	(92,167)	(279,072)	(371,239)
2019	(92,166)	(279,074)	(371,240)
2020	<u>40,130</u>	<u>82,563</u>	<u>122,693</u>
Total	<u>\$ (236,370)</u>	<u>\$ (754,655)</u>	<u>\$ (991,025)</u>

Actuarial Assumptions - SERS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

**EAST KNOX LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 3,414,746	\$ 2,462,603	\$ 1,660,821

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 12,220,552	\$ 8,797,616	\$ 5,903,013

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$18,866.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$18,866, \$34,578, and \$27,005, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$36,167, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 799,401
Net adjustment for revenue accruals	176,466
Net adjustment for expenditure accruals	(21,123)
Net adjustment for other sources/uses	(7,847)
Funds budgeted elsewhere	4,507
Adjustment for encumbrances	71,089
GAAP basis	<u>\$ 1,022,493</u>

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

NOTE 14 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016

NOTE 14 - CONTINGENCIES - (Continued)

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 15 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	175,540
Current year offsets	(706,753)
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (531,213)</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

During a prior fiscal year, the District issued \$8,909,000 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$7,722,204 at June 30, 2016.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2016**

NOTE 16 - COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 58,147
Other governmental	<u>52,671</u>
 Total	 <u>\$ 110,818</u>

NOTE 17 - FISCAL EMERGENCY

On February 5, 2015, the District was declared into fiscal emergency by the Auditor of State as defined by the Ohio Revised Code Section 3316.03(B)(3). In accordance with the law, a five-member Financial Planning and Supervision Commission will be established to oversee the financial affairs of the District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management of their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Knox County Auditor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the District must be in accordance with the plan. The recovery plan was adopted on June 29, 2015 and amended on April 25, 2016.

NOTE 18 - SUBSEQUENT EVENT

On September 8, 2016, the District issued Refunding Bonds, Series 2016, in the amount of \$8,885,000. These bonds bear variable interest rates and mature on December 1, 2034.

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REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.04315740%	0.04755800%	0.04755800%
District's proportionate share of the net pension liability	\$ 2,462,603	\$ 2,406,883	\$ 2,828,122
District's covered-employee payroll	\$ 1,299,241	\$ 1,381,941	\$ 1,406,712
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	201.04%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the District's measurement date which is the prior fiscal year.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03183266%	0.03391000%	0.03391000%
District's proportionate share of the net pension liability	\$ 8,797,616	\$ 8,248,154	\$ 9,825,147
District's covered-employee payroll	\$ 3,487,729	\$ 3,464,692	\$ 3,994,431
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	252.24%	238.06%	245.97%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

Amounts presented as of the District's measurement date which is the prior fiscal year.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 159,981	\$ 171,240	\$ 191,537	\$ 194,689
Contributions in relation to the contractually required contribution	<u>(159,981)</u>	<u>(171,240)</u>	<u>(191,537)</u>	<u>(194,689)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,142,721	\$ 1,299,241	\$ 1,381,941	\$ 1,406,712
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 185,996	\$ 192,004	\$ 236,130	\$ 242,565	\$ 222,635	\$ 219,408
<u>(185,996)</u>	<u>(192,004)</u>	<u>(236,130)</u>	<u>(242,565)</u>	<u>(222,635)</u>	<u>(219,408)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,382,870	\$ 1,527,478	\$ 1,743,944	\$ 2,465,091	\$ 2,267,159	\$ 2,054,382
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 441,930	\$ 488,282	\$ 450,410	\$ 519,276
Contributions in relation to the contractually required contribution	<u>(441,930)</u>	<u>(488,282)</u>	<u>(450,410)</u>	<u>(519,276)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,156,643	\$ 3,487,729	\$ 3,464,692	\$ 3,994,431
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 531,956	\$ 553,540	\$ 632,937	\$ 636,009	\$ 598,874	\$ 591,612
<u>(531,956)</u>	<u>(553,540)</u>	<u>(632,937)</u>	<u>(636,009)</u>	<u>(598,874)</u>	<u>(591,612)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,091,969	\$ 4,258,000	\$ 4,868,746	\$ 4,892,377	\$ 4,606,723	\$ 4,550,862
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.

SUPPLEMENTARY INFORMATION

**EAST KNOX LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Child Nutrition Cluster:			
(C) (D) School Breakfast Program	10.553	2016	\$ 92,620
(C) (D) National School Lunch Program	10.555	2016	182,887
(D) (E) National School Lunch Program - Food Donation	10.555	2016	33,827
Total National School Lunch Program			<u>216,714</u>
Total U.S. Department of Agriculture and Child Nutrition Cluster			<u>309,334</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2015	56,350
Title I Grants to Local Educational Agencies	84.010	2016	311,963
Total Title I Grants to Local Educational Agencies			<u>368,313</u>
Special Education_Grants to States	84.027	2015	15,474
Special Education_Grants to States	84.027	2016	227,131
Total Special Education_Grants to States			<u>242,605</u>
Twenty-First Century Community Learning Centers	84.287	2015	18,453
Rural Education	84.358	2016	3,016
Improving Teacher Quality State Grants	84.367	2016	25,117
Total U.S. Department of Education			<u>657,504</u>
Total Federal Financial Assistance			<u>\$ 966,838</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass-through numbers for fiscal year 2016.
- (B) This schedule includes the federal award activity of the East Knox Local School District under programs of the federal government for the fiscal year ended June 30, 2016 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the East Knox Local School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the East Knox Local School District.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) Included as part of "Child Nutrition Cluster" in determining major programs.
- (E) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (F) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The District has elected not to use the 10% de minimis indirect cost rate.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

To the Members of the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Knox Local School District, Knox County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Knox Local School District's basic financial statements and have issued our report thereon dated November 14, 2016, wherein we noted, as disclosed in Note 3 to the basic financial statements, the East Knox Local School District changed the presentation of its annual financial report from the cash basis of accounting to presenting its basic financial statements in accordance with accounting principles generally accepted in the United States of America. Furthermore, we noted in Note 17, on February 5, 2015, the Auditor of State declared the East Knox Local School District to be in a state of fiscal emergency as defined by Ohio Revised Code Section 3316.03(B)(3).

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the East Knox Local School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Education
East Knox Local School District

Compliance and Other Matters

As part of reasonably assuring whether the East Knox Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Julian & Grube, Inc.
November 14, 2016



Julian & Grube, Inc.

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

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

To the Members of the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the East Knox Local School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the East Knox Local School District's major federal programs for the fiscal year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the East Knox Local School District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the East Knox Local School District's compliance for each of the East Knox Local School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the East Knox Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Education
East Knox Local School District

Opinion on Each Major Federal Program

In our opinion, the East Knox Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2016.

Report on Internal Control Over Compliance

The East Knox Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the East Knox Local School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the East Knox Local School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Julian & Grube, Inc.
November 14, 2016

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

**SCHEDULE OF FINDINGS
UNIFORM GUIDANCE 2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Special Education_Grants to States (CFDA #84.027); Title I Grants to Local Educational Agencies (CFDA #84.010)
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
UNIFORM GUIDANCE § 200.511
JUNE 30, 2016**

<u>Finding Number</u>	<u>Year Initially Occurred</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2015-001	2004	<u>Noncompliance:</u> Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The District prepared its annual financial report in accordance with the cash basis of accounting.	Yes	N/A



Dave Yost • Auditor of State

EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2017**