



**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center  
Knox County  
308 Martinsburg Road  
Mount Vernon, Ohio 43050

To the Service Center Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, as of June 30, 2005, and the respective changes in financial position, and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The federal awards receipts and expenditures schedule provides additional information and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

December 16, 2005

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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The discussion and analysis of Knox County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key Financial Highlights for 2005 are as follows:

- In total, net assets increased by \$172,918. Total assets increased by \$224,766 and total liabilities increased by \$51,848.
- Revenues for governmental activities totaled \$4,753,105 in 2005. Of this total, \$704,380 or 14.8 percent consisted of general revenues while program specific revenues from charges for services and grants and contributions accounted \$4,048,725 or 85.2 percent.
- Total revenues increased by \$630,666, or 15.3 percent over fiscal year 2004. This included a \$439,110 increase in program revenues and a \$191,556 increase in general revenues.
- Program expenses totaled \$4,580,187. Instructional expenses made up 62.1 percent of this total while support services accounted for 37.8 percent. Other expenses rounded out the remaining 0.1 percent.
- Total program expenses increased \$367,551, or 8.7 percent, over fiscal year 2004

### **Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Knox County Educational Service Center as a financial whole, or complete operating entity.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Knox County Educational Service Center, the general fund is the most significant fund.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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### **Reporting the Educational Service Center as a Whole**

#### *Statement of Net Assets and Statement of Activities*

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2005?" The *Statement of Net Assets* and *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation and extracurricular activities.

### **Reporting the Educational Service Center's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental fund is the general fund.

#### *Governmental Funds*

All of the Educational Service Center's activities are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center'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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

### **The Educational Service Center as a Whole**

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2005 compared to 2004:



**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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**Table 1  
Net Assets  
Governmental Activities**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current and Other Assets	\$1,880,008	\$1,652,348
Capital Assets, Net	<u>68,532</u>	<u>71,426</u>
<i>Total Assets</i>	<u>1,948,540</u>	<u>1,723,774</u>
<b>Liabilities</b>		
Current Liabilities	349,159	306,400
Long-Term Liabilities:		
Due Within One Year	18,277	16,259
Due in More Than One Year	<u>72,109</u>	<u>65,038</u>
<i>Total Liabilities</i>	<u>439,545</u>	<u>387,697</u>
<b>Net Assets</b>		
Invested in Capital Assets	68,532	71,426
Restricted for Other Purposes	76,564	74,605
Unrestricted	<u>1,363,899</u>	<u>1,190,046</u>
<i>Total Net Assets</i>	<u>\$1,508,995</u>	<u>\$1,336,077</u>

Total assets increased by \$224,766. This increase was primarily due to an increase in cash of \$290,652. Total liabilities increased by \$51,848. Long-term liabilities increased by \$9,089 and current liabilities increased \$42,759.

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the second year that the Educational Service Center prepared financial statements following GASB Statement 34, revenue and expense comparisons can be made between the fiscal years 2005 and 2004.

**Knox County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

*Unaudited*

**Table 2**  
**Changes in Net Assets**  
**Governmental Activities**

	2005	2004
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$3,138,487	\$2,775,721
Operating Grants and Contributions	910,238	833,894
Total Program Revenues	<u>4,048,725</u>	<u>3,609,615</u>
General Revenues:		
Grants and Entitlements	667,934	414,147
Investment Earnings	27,916	15,460
Miscellaneous	8,530	83,217
Total General Revenues	<u>704,380</u>	<u>512,824</u>
Total Revenues	<u>4,753,105</u>	<u>4,122,439</u>
<b>Program Expenses</b>		
Instruction:		
Regular	98,077	90,263
Special	2,742,425	2,420,030
Support Services:		
Pupils	578,340	567,925
Instructional Staff	724,002	641,456
Board of Education	23,439	30,147
Administration	283,749	283,447
Fiscal	82,650	72,400
Operation and Maintenance of Plant	37,613	93,036
Pupil Transportation	0	650
Central	3,205	2,784
Extracurricular Activities	<u>6,687</u>	<u>10,498</u>
Total Program Expenses	<u>4,580,187</u>	<u>4,212,636</u>
Increase (Decrease) in Net Assets	172,918	(90,197)
<i>Net Assets Beginning of Year</i>	<u>1,336,077</u>	<u>1,426,274</u>
<i>Net Assets End of Year</i>	<u><u>\$1,508,995</u></u>	<u><u>\$1,336,077</u></u>

The vast majority of revenue supporting all governmental activities is program revenue received as grants for special education and charges for services from contracts with local districts. Program revenue totaled \$4,048,725 or 85.2 percent of the total revenue. The remaining amount of revenue received was in the form of general revenues, which equates to \$704,380 or 14.8 percent of total revenue. Program revenues for fiscal year 2005 increased by \$439,110 due to the Educational Service Center taking over the units for the MRDD preschool.

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

**Governmental Activities**

A review of Table 2 shows the Educational Service Center generating roughly 5.6 percent excess of revenues under expenses. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by general revenue.

**Table 3  
Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$98,077	(\$20,810)	\$90,263	(\$2,713)
Special	2,742,425	789,170	2,420,030	912,935
Support Services:				
Pupils	578,340	(568,885)	567,925	(562,984)
Instructional Staff	724,002	(301,411)	641,456	(468,770)
Board of Education	23,439	(23,439)	30,147	(30,147)
Administration	283,749	(280,476)	283,447	(280,447)
Fiscal	82,650	(82,650)	72,400	(72,400)
Operation and Maintenance of Plant	37,613	(37,613)	93,036	(93,036)
Pupil Transportation	0	0	650	0
Central	3,205	(3,205)	2,784	(2,784)
Extracurricular Activities	6,687	(2,143)	10,498	(2,675)
<b>Total</b>	<b>\$4,580,187</b>	<b>(\$531,462)</b>	<b>\$4,212,636</b>	<b>(\$603,021)</b>

**The Educational Service Center's Funds**

Information regarding the School District's major funds can be found on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,768,159 and expenditures of \$4,586,287.

**General Fund Budgeting Highlights**

The Educational Service Center'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 fund to be budgeted is the main operating fund of the School District, the general fund.

For the General fund, final budget basis appropriations totaled \$5,860,137 compared to the original estimate of \$4,594,439. This difference was primarily due an increase in special education costs.

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005  
Unaudited*

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The general fund's unencumbered ending cash balance totaled \$1,701,947, which was well above the beginning cash balance of \$1,413,300, due to the Educational Service Center keeping its actual expenditures well below the amount that was appropriated.

**Capital Assets**

At the end of fiscal year 2005, the Educational Service Center had \$68,532 invested in furniture, fixtures and equipment. Table 4 shows fiscal 2005 values compared to 2004. More detailed information is presented in Note 9 to the basic financial statements.

**Table 4  
Capital Assets at June 30  
Governmental Activities**

	<u>2005</u>	<u>2004</u>
Furniture, Fixtures and Equipment	<u>\$68,532</u>	<u>\$71,426</u>

All capital assets are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year. The Educational Service Center purchased equipment totaling \$12,736 during the year which was offset by current depreciation expense of \$15,630.

**Current Related Financial Activities**

The Knox County Educational Service Center is financially stable at the present time. The Governing Board and administration closely monitor revenues and expenditures in accordance with Board Policy.

The Board and administration of the Knox County Educational Service Center continue to rely on different sources of revenue in addition to the financial resources of the State foundation program. Of immediate concern, is the loss of revenue from the Community Alternative Funding Program (CAFS). These funds have allowed the Educational Service Center to provide cost-effective services to the local school districts using CAFS resources to deliver required services to handicapped children. If there is no legislative change in the law, there will be no revenue to offset the costs to the Educational Service Center for supplemental services it provides to the local school districts in Knox County.

The Knox County Educational Service Center relies heavily on not only contracts with local school districts and State foundation revenue, but other grants and other revenue it is able to generate. With declining State support, and minimal available revenues, it becomes imperative that the Knox County Education Service Center be able to generate other sources of revenue to sustain the level of quality of services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local school districts to secure resources that will reinforce the instructional programs within the districts.

Irrespective of the instability of the funding in the State of Ohio, and the uncertainty of how educational service centers deliver services on a regional basis, the Knox County Educational Service Center is committed to providing the best services possible and to be fiscally responsible in its operation. The challenge that faces the Knox County Educational Service Center operation is not in providing quality services, but in the uncertainty of how the Educational Service Center will deliver services and what those services should be.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

*Unaudited*

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The Educational Service Center has an efficient system of budgetary processes and controls. Internal department budgets build in additional administrative accountability in administering the budget.

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

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Patricia Lyons, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050, or email at [Lyons\\_p@treca.org](mailto:Lyons_p@treca.org).

# Knox County Educational Service Center

## Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,788,956
Intergovernmental Receivable	91,052
Depreciable Capital Assets, Net	<u>68,532</u>
<i>Total Assets</i>	<u>1,948,540</u>
<b>Liabilities</b>	
Accounts Payable	1,298
Accrued Wages Payable	277,596
Intergovernmental Payable	70,265
Long-Term Liabilities:	
Due Within One Year	18,277
Due In More Than One Year	<u>72,109</u>
<i>Total Liabilities</i>	<u>439,545</u>
<b>Net Assets</b>	
Invested in Capital Assets	68,532
Restricted for:	
Student Activities	4,665
Staff Development	61,832
Entry Year Programs	1,100
Safe and Drug Free Schools	5,893
SchoolNet	3,074
Unrestricted	<u>1,363,899</u>
<i>Total Net Assets</i>	<u><u>\$1,508,995</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$98,077	\$0	\$77,267	(\$20,810)
Special	2,742,425	2,926,166	605,429	789,170
Support Services:				
Pupils	578,340	0	9,455	(568,885)
Instructional Staff	724,002	207,777	214,814	(301,411)
Board of Education	23,439	0	0	(23,439)
Administration	283,749	0	3,273	(280,476)
Fiscal	82,650	0	0	(82,650)
Operation and Maintenance of Plant	37,613	0	0	(37,613)
Central	3,205	0	0	(3,205)
Extracurricular Activities	6,687	4,544	0	(2,143)
<i>Totals</i>	<u>\$4,580,187</u>	<u>\$3,138,487</u>	<u>\$910,238</u>	<u>(531,462)</u>
<b>General Revenues</b>				
				667,934
				27,916
				8,530
				<u>704,380</u>
				Change in Net Assets 172,918
				<u>Net Assets Beginning of Year 1,336,077</u>
				<u>Net Assets End of Year \$1,508,995</u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,703,925	\$85,031	\$1,788,956
Interfund Receivable	1,752	0	1,752
Intergovernmental Receivable	81,859	9,193	91,052
<i>Total Assets</i>	<u>\$1,787,536</u>	<u>\$94,224</u>	<u>\$1,881,760</u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$1,064	\$234	\$1,298
Accrued Wages Payable	260,715	16,881	277,596
Interfund Payable	0	1,752	1,752
Intergovernmental Payable	67,753	2,512	70,265
Deferred Revenue	643	3,747	4,390
<i>Total Liabilities</i>	<u>330,175</u>	<u>25,126</u>	<u>355,301</u>
 <b>Fund Balances</b>			
Reserved for Encumbrances	3,731	4,624	8,355
Unreserved, Undesignated Reported in:			
General Fund	1,453,630	0	1,453,630
Special Revenue Funds	0	64,474	64,474
<i>Total Fund Balances</i>	<u>1,457,361</u>	<u>69,098</u>	<u>1,526,459</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,787,536</u>	<u>\$94,224</u>	<u>\$1,881,760</u>

See accompanying notes to the basic financial statements



**Knox County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2005*

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<b>Total Governmental Funds Balances</b>	<b>\$1,526,459</b>
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*Amounts reported for governmental activities in the  
statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	68,532
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. These deferrals are attributed to accounts and intergovernmental receivables.

Customer Services	643
Intergovernmental	3,747

Total	4,390
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Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(90,386)
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<i>Net Assets of Governmental Activities</i>	<u><u>\$1,508,995</u></u>
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See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$1,203,303	\$330,913	\$1,534,216
Interest	27,916	0	27,916
Tuition and Fees	158,324	0	158,324
Extracurricular Activities	0	4,544	4,544
Contributions and Donations	1,000	39,209	40,209
Customer Services	2,991,040	0	2,991,040
Miscellaneous	11,910	0	11,910
<i>Total Revenues</i>	<u>4,393,493</u>	<u>374,666</u>	<u>4,768,159</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	27,351	69,607	96,958
Special	2,681,850	74,261	2,756,111
Support Services:			
Pupils	567,759	9,440	577,199
Instructional Staff	512,897	209,518	722,415
Board of Education	23,439	0	23,439
Administration	278,093	2,143	280,236
Fiscal	82,424	0	82,424
Operation and Maintenance of Plant	37,613	0	37,613
Central	3,205	0	3,205
Extracurricular Activities	0	6,687	6,687
<i>Total Expenditures</i>	<u>4,214,631</u>	<u>371,656</u>	<u>4,586,287</u>
<i>Net Change in Fund Balances</i>	178,862	3,010	181,872
<i>Fund Balances Beginning of Year</i>	<u>1,278,499</u>	<u>66,088</u>	<u>1,344,587</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,457,361</u></u>	<u><u>\$69,098</u></u>	<u><u>\$1,526,459</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*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, 2005*

**Net Change in Fund Balances - Total Governmental Funds** \$181,872

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

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation expense. This is the amount by which depreciation  
exceeded capital outlays in the current period.

Capital Asset Additions	12,736
Depreciation	<u>(15,630)</u>

Total (2,894)

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

Tuition and Fees	(16,064)
Intergovernmental	3,747
Customer Services	643
Miscellaneous	<u>(3,380)</u>

Total (15,054)

Some expenses reported in the statement of activities do not  
require the use of current financial resources and therefore  
are not reported as expenditures in governmental funds.

Compensated Absences	(9,089)
Pension Obligation	<u>18,083</u>

Total 8,994

*Change in Net Assets of Governmental Activities* \$172,918

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$1,203,303	
Interest			27,916	
Tuition and Fees			163,324	
Contributions and Donations			1,000	
Customer Services			3,035,309	
Miscellaneous			11,910	
<i>Total Revenues</i>			4,442,762	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	50,609	50,609	28,317	22,292
Special	2,450,160	3,715,858	2,633,145	1,082,713
Support Services:				
Pupils	722,795	722,795	564,932	157,863
Instructional Staff	705,252	705,252	508,205	197,047
Board of Education	50,192	50,192	23,439	26,753
Administration	349,968	349,968	277,863	72,105
Fiscal	101,524	101,524	82,288	19,236
Operation and Maintenance of Plant	159,939	159,939	37,561	122,378
Pupil Transportation	1,000	1,000	0	1,000
Central	3,000	3,000	2,440	560
<i>Total Expenditures</i>	4,594,439	5,860,137	4,158,190	1,701,947
<i>Net Change in Fund Balance</i>			284,572	
<i>Fund Balance Beginning of Year</i>			1,413,300	
Prior Year Encumbrances Appropriated			4,075	
<i>Fund Balance End of Year</i>			\$1,701,947	

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2005*

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	Private Purpose Trust	
	Wolfe Estate	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$11,485	<u>\$187,239</u>
<b>Liabilities</b>		
Undistributed Monies	<u>0</u>	<u>\$187,239</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$11,485</u>	

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2005*

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	<u>Wolfe Estate</u>
<b>Additions</b>	
Interest	\$232
<b>Deductions</b>	
	<u>0</u>
<i>Change in Net Assets</i>	232
<i>Net Assets Beginning of Year</i>	<u>11,253</u>
<i>Net Assets End of Year</i>	<u><u>\$11,485</u></u>

See accompanying notes to the basic financial statements

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 1 - Description of the Educational Service Center and Reporting Entity**

On July 18, 1914, the Knox County Educational Service Center ("Educational Service Center") was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to area school districts.

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and federal agencies. The Board controls the Educational Service Center's support facilities staffed by 109 non-certificated and 36 certificated teaching personnel, and 16 administrators who provide services to 8,466 students and other community members.

#### *Reporting Entity*

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

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

The Educational Service Center participates in three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 11 and 12 to the basic financial statements. These organizations are the Knox County Career Center, Tri-Rivers Educational Computer Association, North Central Ohio Special Education Regional Resource Center and the Ohio School Boards Association Workers' Compensation Group Rating Program.

### **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

**Fund Financial Statements** During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

### **B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds of the Educational Service Center are divided into two categories: governmental and fiduciary.

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

**General Fund** The general fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.



## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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***Fiduciary Fund Type*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private-purpose trust fund established to account for funds from an estate with the interest specifically designated to be used for college scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for resources for the North Central Ohio Special Education Regional Resource Center.

### ***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., 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.

The private-purpose trust fund is reported using the economic resources measurement focus.

### ***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. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange 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 Educational Service Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: grants, interest, tuition, fees and customer services.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Cash and Cash Equivalents***

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

Investments are reported at fair value, which is based on quoted market prices.

During fiscal year 2005, the Educational Service Center invested in STAROhio, an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, 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 2005 amounted to \$27,916, which includes \$1,327 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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***F. Capital Assets***

All capital assets of the Educational Service Center are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets 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 retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. 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.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	6 - 10 years

***G. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

***H. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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, compensated absences and contractually required pension contributions 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 fiscal year.

***I. Interfund Transactions***

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### ***J. Fund Balance Reserves***

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

### ***K. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$76,564 of restricted net assets, of which none is restricted by enabling legislation.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

### ***L. 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.

### ***M. Estimates***

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

### ***N. Budgetary Data***

The budgetary process that is followed by the Educational Service Center is for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. During the year, several supplemental appropriations were enacted; however, none of these amendments were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Note 3 - Change in Accounting Principles

For fiscal year 2005, the Educational Service Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 did not affect the presentation of the financial statements of the Educational Service Center. The implementation of GASB Technical Bulletin No. 2004-2 had no material effect on the financial statements as they were previously reported as of June 30, 2004.

### Note 4 – Accountability and Legal Compliance

#### A. Fund Deficits

Fund Balances at June 30, 2005, included the following individual fund deficits:

Special Revenue Funds:	
EMIS	\$18
Daycare	1,381
Alternative Center	910
Technology Equity	39
Preschool	1,371

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

#### B. Legal Compliance

The Educational Service Center had negative cash balances in the following funds indicating that revenues from other sources were used to pay obligations of these funds, contrary to Ohio Revised Code Section 5705.10:

Preschool	\$12
Miscellaneous Federal Grants	1,740

This will be more closely monitored in the future.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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**Note 5 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$178,862
Net Adjustment for Revenue Accruals	49,269
Net Adjustment for Expenditure Accruals	60,171
Encumbrances	(3,730)
Budget Basis	<u><u>\$284,572</u></u>

**Note 6 - Deposits and Investments**

Monies held by the Educational Service Center are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the Educational Service Center treasury. Active monies must be maintained either as cash in the Educational Service Center 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 moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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Interim monies held by the Educational Service Center can 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 obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

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.

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$656,000 of the Educational Service Center's bank balance of \$756,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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### Investments

As of June 30, 2005, the Educational Service Center only had an investment in STAROhio, the State Treasurer's Investment Pool. This investment had a carrying and fair value of \$1,312,452 and an average days to maturity of 33 days. The investment is in an internal investment pool.

**Interest Rate Risk** The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk** STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk** The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's investment in STAROhio represents 100 percent of the Educational Service Center's total investments.

### Note 7 - Receivables

Receivables at June 30, 2005, consisted of tuition and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<b>Governmental Activities</b>	
Tuition	\$2,585
Customer Services	79,274
Safe and Drug Free	5,085
Learn and Serve America	2,549
Preschool	1,559
<i>Total Governmental Activities</i>	<u><u>\$91,052</u></u>

### Note 8 - State Funding

The Education Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Education Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.



**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school district an amount equal to \$19.00 times the school district's total student count and remits this amount to the Education Service Center.

The Education Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Education Service Center.

**Note 9 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>7/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/05</u>
<b>Governmental Activities</b>				
Capital Assets, being Depreciated				
Furniture, Fixtures and Equipment	\$122,238	\$12,736	\$0	\$134,974
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(50,812)</u>	<u>(15,630) *</u>	<u>0</u>	<u>(66,442)</u>
Governmental Activities Capital Assets, Net	<u><u>\$71,426</u></u>	<u><u>(\$2,894)</u></u>	<u><u>\$0</u></u>	<u><u>\$68,532</u></u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,123
Special	4,630
Support Services:	
Instructional Staff	5,278
Administration	3,254
Fiscal	345
Total Depreciation Expense	<u><u>\$15,630</u></u>

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**Note 10 – Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center during fiscal year 2005 were as follows:

	Amount			Amount	Amounts
	Outstanding	Additions	Deletions	Outstanding	Due in
	7/1/04			6/30/05	One Year
<b>Governmental Activities</b>					
Compensated Absences	\$81,297	\$11,010	\$1,921	\$90,386	\$18,277

Compensated absences will be paid from the general fund and public school preschool, alternative center and preschool special revenue funds.

**Note 11 - Jointly Governed Organizations**

***Knox County Career Center*** The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 2005. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

***Tri-Rivers Educational Computer Association*** The Tri-Rivers Educational Computer Association (TRECA) is jointly governed organization among 31 member districts. TRECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the members' districts. The degree of control exercised by any participating school district is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 2005. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

***North Central Ohio Special Education Regional Resource Center*** North Central Ohio Special Education Regional Resource Center (NCO/SERRC)-NCO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NCO/SERRC is governed by a governing board of 47 members made up of representatives from 42 superintendents of the participating districts, one representative from area colleges and university branches, one representative of the County 169 programs, two parents of children with disabilities, and one non-public representative. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Knox County Educational Service Center, Martinsburg Road, Mount Vernon, Ohio 43050.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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### **Note 12 - Insurance Purchasing Pool**

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

### **Note 13 - Risk Management**

The Educational Service Center 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. During fiscal year 2005, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

### **Note 14 - Pension Plans**

#### ***A. School Employees Retirement System***

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$150,727, \$108,868 and \$101,275 respectively; 91.77 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

### ***B. State Teachers Retirement System***

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

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The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$302,249, \$266,695, and \$176,579 respectively; 91.33 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$34 made by the Educational Service Center and \$15,184 made by the plan members.

### **Note 15 - Postemployment Benefits**

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

All retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$23,250 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$48,911.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223.443 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**Note 16 - Other Employee Benefits**

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180-day employees and 200 days for 260-day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 45 days. Any employee receiving such payment must meet the requirement provisions set by STRS or SERS.

Life Insurance is provided through Medical Life Insurance Company. The Governing Board pays 100 percent of the premium. Coverage is \$40,000 life and an additional \$40,000 Accidental Death, Dismemberment, and Loss of Sight.

Health insurance is provided through United Health Care. Employees pay \$40 and \$90 monthly for single and family coverage, respectively. Yearly deductible for individuals is \$100 and yearly family deductible is \$300.

**Note 17 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and State 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

**B. Litigation**

The Educational Service Center is not a party to legal proceedings.

**Note 18 – Interfund Balances**

The balances for advances to/from other funds at June 30, 2005, consisted of the following individual fund receivables and payables.

	Interfund Receivable	Interfund Payable
General	\$1,752	\$0
Preschool	0	12
Miscellaneous Federal Grants	0	1,740
Totals	\$1,752	\$1,752

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2005*

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Interfund payables in the preschool and miscellaneous federal grants special revenue funds are due to the timing of the receipt of grant monies received by the various funds. Both are expected to be paid within one year.

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**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education: Grants to States	84.027	6B-AA-05	\$7,500	\$4,111
Title VI-B		6B-SI/ST-04P	228,765	291,237
		6B-EC-05	37,975	0
		6B-ST-05	163,779	129,501
		6B-SI-05P	652,331	605,332
Total Special Education: Grants to States			<u>1,090,350</u>	<u>1,030,181</u>
Special Education: Pre-School Grants	84.173	PG-S1-05	37,651	37,663
		PG-S1-04P	1,892	2,445
Total Special Education: Pre-School Grants			<u>39,543</u>	<u>40,108</u>
Total Special Education Cluster			1,129,893	1,070,289
Safe and Drug Free Schools Grants	84.184c	T4-S1-04	7,415	6,606
Total U.S. Department of Education			1,137,308	1,076,895
<b><u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America- School & Community Based Programs	94.004	SV-S1-05	12,451	15,000
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>				
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities</i>				
State Children's Health Insurance Program	93.767	N/A	11,456	11,457
Community Alternative Funding System	93.778	N/A	201,310	201,310
Total Ohio Department of MR/DD			<u>212,766</u>	<u>212,767</u>
<b>Total Federal Awards</b>			<u><u>\$1,362,525</u></u>	<u><u>\$1,304,662</u></u>

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

**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (Schedule) is a summary of the activity of the Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – MATCHING REQUIREMENTS**

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.

**NOTE C – SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)**

The Schedule includes amounts received and spent by the SERRC. SERRC is a separate entity from the Center and has its own governing body. The Center's responsibility for funding is limited to depositing and disbursing federal monies as directed by the SERRC. SERRC is responsible for compliance with federal requirements, but the federal monies are included within the scope of the Center.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Educational Service Center  
Knox County  
308 Martinsburg Road  
Mount Vernon, Ohio 43050

To the Service Center Board:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

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

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Center's management dated December 16, 2005, we reported a matter related to noncompliance we deemed immaterial.

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Educational Service Center  
Knox County  
Independent Accountants' Report On Internal Control Over  
Financial Reporting and On Compliance and Other Matters  
Required By *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Service Center Board and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 16, 2005



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Educational Service Center  
Knox County  
308 Martinsburg Road  
Mount Vernon, Ohio 43050

To the Service Center Board:

#### Compliance

We have audited the compliance of the Educational Service Center, Knox County, Ohio, (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2005-01.

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### **Internal Control Over Compliance**

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

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

December 16, 2005

**KNOX COUNTY EDUCATIONAL CENTER  
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #84.027 & 84.173 Cluster—Special Education Grants To States and Special Education Preschool Grant
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

**KNOX COUNTY EDUCATIONAL CENTER  
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2005-01
<b>CFDA Title and Number</b>	<i>Special Education Cluster: Special Education Grants to States, CFDA # 84.027; Special Education Preschool Grant, CFDA # 84.173</i>
<b>Federal Award Number/Year</b>	6B-SI FYE 06/30/2004 6B-SI FYE 06/30/2005
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Non-Compliance Finding – Questioned Cost**

**Ohio Rev. Code Section 3313.24** states, in part, that the board of education of each local, exempted village or city school district shall fix the compensation of its treasurer, which shall be paid from the general fund of the district. A governing board of an educational service center shall fix the compensation of its treasurer and pay its treasurer in the manner prescribed in the section for local, exempted village, and city school districts.

In addition, **Ohio Revised Code Sections 3313.29 and 3313.31** respectively state, in part, that the treasurer of each board of education shall keep an account of all school funds of the district and shall be responsible for the financial affairs of the district, subject to the direction of the district board of education.

During fiscal year 2005, \$11,000 of the Treasurer’s annual salary was paid directly from Title VI-B, special education fund. This amount is contrary to state law and is therefore considered a questioned cost.

To comply with the Ohio Revised Code, the Treasurer’s salary should be paid solely from the General Fund. In addition, the Board of Education should ensure that the Treasurer’s annual Salary has been fixed and approved within the Treasurer’s contract. The Board of Education should also approve any subsequent amendments to this amount as evidenced by the minute records. Recognizing that administrative time is devoted to federal programs, the Board can apply for an indirect cost rate with the Ohio Department of Education. If approved, the General Fund could be reimbursed from federal funds to offset a portion of the Treasurer’s associated administrative costs.

Furthermore, **Title 2 of the Code of Federal Regulations, Part 225, Appendix B, Section 8** provides in part that compensation for personnel services is allowable to the extent it satisfies the specific requirements of the Circular; that total compensation for individual employees is reasonable for the service rendered and conforms to the established policy of the governmental unit; and it is supported as provided in subsection ‘h’ of the CFR.

Title 2 of the Code of Federal Regulations part 225, Appendix B, subsection 8.h.5 provides in part that salaries and wages shall be based on documented payrolls approved by a responsible official. The distribution of salaries and wages to awards must be supported by personnel activity reports unless a substitute system has been approved in writing by the cognizant agency. Whether employees are charged in whole or in part to a federal award, personnel activity reports must:



**KNOX COUNTY EDUCATIONAL CENTER  
KNOX COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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<b>Finding Number</b>	2005-01
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- Reflect an after-the-fact determination of actual activity of each employee. Budget estimates do not qualify for support.
- Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- Be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activities represents a reasonable estimate of actual work performed.
- Reports must be prepared at least monthly and must coincide with one or more pay periods.

During fiscal year 2005, the Center paid \$5,000 to an office manager in the Treasurer's Office for administrative services related to the Title VI-B grant based on an arbitrarily determined amount. The Center did not provide detailed after the fact personnel activity reports to support these charges nor was evidence provided that a substitute system was approved, and is therefore considered a questioned cost.

We recommend the Center require individuals who charge federal grants, in whole or in part, complete and maintain time and effort reports which document time spent working on the federal program. Monthly, an individual responsible for monitoring the cost allocated to the program should review the time and effort records for comparison to the cost charged to the program. Any variance between the allocated costs to the actual time spent meeting cost objectives should be adjusted. The final cost charged to the program should be reflective of the actual cost objectives demonstrated on the time and effort reports.

The \$16,000 in questioned costs noted above, together, represent a violation of Allowable Cost Principles under the United States Office of Management and Budget Circular A-87, Attachment A, Part C. To avoid the potential loss of future grant funds, the Center should follow the recommended procedures to attain compliance.





**Auditor of State  
Betty Montgomery**

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**KNOX COUNTY EDUCATIONAL SERVICE CENTER**

**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  
FEBRUARY 9, 2006**