



Dave Yost • Auditor of State



**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

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# Dave Yost • Auditor of State

## 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 Educational Service Center, Knox County, Ohio (the Center), as of and for the year ended June 30, 2010, 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 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 Educational Service Center, Knox County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Center has suffered recurring losses from operations and has a net asset deficiency. Note 17 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The Budgetary Comparison for the General Fund provides additional analysis and is not a required part of the basic financial statements. The Budgetary Comparison for the General Fund is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This statement was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

February 14, 2011

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
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, 2010. 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 2010 are as follows:

- Health insurance for the Educational Service Center's employees increased twenty-four percent during fiscal year 2010 due to large claims and resulted in negative net assets in the self insurance fund. For more information, see Note 17 to the basic financial statements.
- All employees received a three percent wage increase for fiscal year 2010.
- There were two retirements this year, the Superintendent and the Alternative Center principal.
- The Center contracted with TRECA for IT services at a yearly cost of \$40,000, a slight increase from InfoLink.

### **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.

### **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 2010?" 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.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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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 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*

Most 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.

#### *Proprietary Fund*

The School District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Educational Service Center's various functions. The Educational Service Center's internal service fund accounts for medical self insurance. The proprietary fund uses the accrual basis of accounting.

#### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

# Knox County Educational Service Center

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

## 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 2010 compared to 2009:

**Table 1**  
**Net Assets**  
**Governmental Activities**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$457,007	\$1,174,194	(\$717,187)
Capital Assets, Net	<u>194,323</u>	<u>188,132</u>	<u>6,191</u>
<i>Total Assets</i>	<u>651,330</u>	<u>1,362,326</u>	<u>(710,996)</u>
<b>Liabilities</b>			
Current Liabilities	875,272	605,892	269,380
Long-Term Liabilities:			
Due Within One Year	19,244	20,954	(1,710)
Due in More Than One Year	<u>76,971</u>	<u>83,814</u>	<u>(6,843)</u>
<i>Total Liabilities</i>	<u>971,487</u>	<u>710,660</u>	<u>260,827</u>
<b>Net Assets</b>			
Invested in Capital Assets	194,323	188,132	6,191
Restricted for:			
Safe and Drug Free Schools	0	24,059	(24,059)
Student Activities	2,494	1,309	1,185
Staff Development	41,511	28,078	13,433
SchoolNet	75	75	0
Preschool for the Handicapped	9,822	0	9,822
Alternative Schools	0	69	(69)
Other Purposes	33,972	8,312	25,660
Unrestricted (Deficit)	<u>(602,354)</u>	<u>401,632</u>	<u>(1,003,986)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>(\$320,157)</u></u>	<u><u>\$651,666</u></u>	<u><u>(\$971,823)</u></u>

The decrease in current assets was primarily due to a decrease in the Educational Service Center's cash balance. As expenditures outpaced revenues during the year, cash reserves were spent. This decrease is also reflected in the change in unrestricted net assets from 2009 to 2010. Liabilities increased due to higher claims payable for the self-insurance program.

# Knox County Educational Service Center

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited

Table 2 shows revenues, expenses and changes in net assets for fiscal years 2010 and 2009.

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

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$4,554,330	\$4,429,846	\$124,484
Operating Grants and Contributions	1,012,164	1,071,629	(59,465)
Total Program Revenues	<u>5,566,494</u>	<u>5,501,475</u>	<u>65,019</u>
General Revenues:			
Grants and Entitlements	280,629	291,239	(10,610)
Investment Earnings	3,198	18,038	(14,840)
Miscellaneous	12,139	8,019	4,120
Total General Revenues	<u>295,966</u>	<u>317,296</u>	<u>(21,330)</u>
Total Revenues	<u>5,862,460</u>	<u>5,818,771</u>	<u>43,689</u>
<b>Program Expenses</b>			
Instruction:			
Regular	594,686	88,623	(506,063)
Special	4,039,504	4,121,181	81,677
Support Services:			
Pupils	741,530	579,411	(162,119)
Instructional Staff	873,696	923,896	50,200
Board of Education	27,987	28,032	45
Administration	389,310	352,467	(36,843)
Fiscal	119,554	91,091	(28,463)
Operation and Maintenance of Plant	42,375	51,248	8,873
Central	890	4,008	3,118
Extracurricular Activities	4,751	9,364	4,613
Total Program Expenses	<u>6,834,283</u>	<u>6,249,321</u>	<u>(584,962)</u>
Increase (Decrease) in Net Assets	(971,823)	(430,550)	(541,273)
<i>Net Assets Beginning of Year</i>	<u>651,666</u>	<u>1,082,216</u>	<u>(430,550)</u>
<i>Net Assets (Deficit) End of Year</i>	<u>(\$320,157)</u>	<u>\$651,666</u>	<u>(\$971,823)</u>

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

**Governmental Activities**

A review of Table 2 shows the Educational Service Center net assets decreased from fiscal year 2009. While revenues remained fairly consistent, expenditures increased significantly over 2009. This increase was due to severance payments for two retirements; the Superintendent and the school Principal at the Alterative Center. Also, all employees received a three percent salary increase. Additional aides were also hired for the schools this fiscal year and for Clear Fork. Additional professional development classes were added during the fiscal year and iPods and iPads were purchased for the trainings.

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 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$594,686	(\$554,155)	\$88,623	(\$30,605)
Special	4,039,504	1,063,860	4,121,181	896,466
Support Services:				
Pupils	741,530	(741,530)	579,411	(579,411)
Instructional Staff	873,696	(460,033)	923,896	(508,156)
Board of Education	27,987	(27,987)	28,032	(28,032)
Administration	389,310	(386,310)	352,467	(349,467)
Fiscal	119,554	(119,554)	91,091	(91,091)
Operation and Maintenance of Plant	42,375	(42,375)	51,248	(51,248)
Central	890	(890)	4,008	(4,008)
Extracurricular Activities	4,751	1,185	9,364	(2,294)
<b>Total</b>	<b>\$6,834,283</b>	<b>(\$1,267,789)</b>	<b>\$6,249,321</b>	<b>(\$747,846)</b>

**The Educational Service Center's Funds**

Information regarding the Educational Service Center's governmental funds can be found on pages 13 - 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,853,358 and expenditures of \$6,341,929. General fund is the most significant and had the largest decrease in fund balance. This decrease was caused by increases in expenditures as previously explained.

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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**General Fund Budgeting Highlights**

There are no requirements for the Educational Service Center identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary process that is followed is for control purposes. The most significant fund to be budgeted is the main operating fund of the Educational Service Center, the general fund.

For the general fund, final budget basis appropriations totaled \$7,408,957, which was lower than the original estimate of \$7,460,831.

The general fund's unencumbered ending cash balance totaled \$181,096, which was less than the beginning unencumbered cash balance of \$796,762. The Educational Service Center's actual expenditures were well below the amount that was appropriated.

**Capital Assets**

Table 4 shows fiscal 2010 values compared to 2009. More detailed information is presented in Note 7 to the basic financial statements.

**Table 4  
Capital Assets at June 30  
Net of Depreciation  
Governmental Activities**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Furniture, Fixtures and Equipment	<u>\$194,323</u>	<u>\$188,132</u>	<u>\$6,191</u>

All capital assets are reported net of depreciation. As one can see, there was a slight increase in capital assets during the fiscal year. The Educational Service Center purchased computer software and hardware through a 21<sup>st</sup> Century grant to create a new computer lab for the Alternative Center.

**Debt**

At June 30, 2010, the Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences. For additional information on long-term liabilities, see Note 8 to the basic financial statements.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

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### **Current Related Financial Activities**

The Knox County Educational Service Center is currently facing several cash flow issues related to self insurance and rising expenditures in the general fund. The general fund advanced \$73,005 to the self insurance fund to off-set a deficit balance, with anticipation of returning the money in fiscal year 2011. A twenty-four percent increase in premiums was implemented effective July 1, 2010. The claims continue to increase more than premiums. The Center is to explore ways of reducing the deficit.

The Knox County Educational Service Center Governing Board continues to rely on generating different sources of revenue in addition to the financial resources provided from the State foundation program. With the implementation of the HB 115, the Knox County Educational Service Center, as of July 1, 2007, no longer serves as the fiscal agent for the North Central Ohio Special Education Regional Resource Center (NCO-SERRC) and the NCO-SERRC is no longer in existence. The services provided by the NCO-SERRC became part of the services provided by the State Support Team Region 7 (SST) as of July 1, 2007. The Knox County Educational Service Center still holds some money in an agency fund for NCO-SERRC which will be spent by SST as expenses are incurred.

The Knox County Educational Service Center relies heavily on not only contracts with local districts, State foundation revenue, but grants and other revenue it is able to generate. The fact that educational service centers are not fully funded by the State, makes it imperative that the Knox County Education Service Center look for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local districts to improve their instructional programs and to develop school improvement strategies. The Educational Service Center has been able to secure grant funding in several areas that provide services and opportunities for students in the districts served by the Educational Service Center.

Revenues derived from contracts with local districts continues to decrease as their State funding has been reduced. Increasing expenditures for the Educational Service Center have reduced the cash balance at an increasing pace. The Educational Service Center must continue to monitor its expenditures to ensure that the cash reserves do not reach an unacceptable level.

Irrespective of the instability of 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 service 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 the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

The Educational Service Center has an efficient system of budgetary processes and controls. Internal departmental budgets provide 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 Heather Darnold, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050, or email at [Darnold\\_h@treca.org](mailto:Darnold_h@treca.org).

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# Knox County Educational Service Center

## Statement of Net Assets

June 30, 2010

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$187,256
Accounts Receivable	720
Intergovernmental Receivable	269,031
Depreciable Capital Assets, Net	194,323
<i>Total Assets</i>	<u>651,330</u>
<b>Liabilities</b>	
Accounts Payable	11,050
Accrued Wages Payable	366,287
Intergovernmental Payable	100,331
Claims Payable	397,604
Long-Term Liabilities:	
Due Within One Year	19,244
Due In More Than One Year	76,971
<i>Total Liabilities</i>	<u>971,487</u>
<b>Net Assets</b>	
Invested in Capital Assets	194,323
Restricted for:	
Preschool for the Handicapped	9,822
Student Activities	2,494
Staff Development	41,511
SchoolNet	75
Other Purposes	33,972
Unrestricted (Deficit)	<u>(602,354)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>(\$320,157)</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, 2010*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$594,686	\$0	\$40,531	(\$554,155)
Special	4,039,504	4,548,394	554,970	1,063,860
Support Services:				
Pupils	741,530	0	0	(741,530)
Instructional Staff	873,696	0	413,663	(460,033)
Board of Education	27,987	0	0	(27,987)
Administration	389,310	0	3,000	(386,310)
Fiscal	119,554	0	0	(119,554)
Operation and Maintenance of Plant	42,375	0	0	(42,375)
Central	890	0	0	(890)
Extracurricular Activities	4,751	5,936	0	1,185
<i>Totals</i>	<u>\$6,834,283</u>	<u>\$4,554,330</u>	<u>\$1,012,164</u>	<u>(1,267,789)</u>

**General Revenues**

Grants and Entitlements not Restricted to Specific Programs	280,629
Investment Earnings	3,198
Miscellaneous	12,139
<i>Total General Revenues</i>	<u>295,966</u>
Change in Net Assets	(971,823)
<i>Net Assets Beginning of Year</i>	<u>651,666</u>
<i>Net Assets (Deficit) End of Year</i>	<u>(\$320,157)</u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2010*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$115,160	\$72,096	\$187,256
Accounts Receivable	720	0	720
Interfund Receivable	78,976	0	78,976
Intergovernmental Receivable	216,410	52,621	269,031
<i>Total Assets</i>	<u>\$411,266</u>	<u>\$124,717</u>	<u>\$535,983</u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$5,028	\$6,022	\$11,050
Accrued Wages Payable	342,263	24,024	366,287
Interfund Payable	0	5,971	5,971
Intergovernmental Payable	96,448	3,883	100,331
Deferred Revenue	0	7,253	7,253
<i>Total Liabilities</i>	<u>443,739</u>	<u>47,153</u>	<u>490,892</u>
 <b>Fund Balances</b>			
Reserved for Encumbrances	4,243	6,778	11,021
Unreserved, Undesignated Reported in:			
General Fund (Deficit)	(36,716)	0	(36,716)
Special Revenue Funds	0	70,786	70,786
<i>Total Fund Balances (Deficit)</i>	<u>(32,473)</u>	<u>77,564</u>	<u>45,091</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$411,266</u>	<u>\$124,717</u>	<u>\$535,983</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, 2010*

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<b>Total Governmental Funds Balances</b>	\$45,091
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	194,323
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	7,253
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(470,609)
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(96,215)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>(\$320,157)</u></u>

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, 2010*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$834,799	\$420,950	\$1,255,749
Interest	1,349	0	1,349
Tuition and Fees	276,739	0	276,739
Extracurricular Activities	0	5,936	5,936
Contributions and Donations	800	28,991	29,791
Customer Services	4,271,655	0	4,271,655
Miscellaneous	12,139	0	12,139
<i>Total Revenues</i>	<u>5,397,481</u>	<u>455,877</u>	<u>5,853,358</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	549,392	42,540	591,932
Special	3,635,722	54,992	3,690,714
Support Services:			
Pupils	674,290	332,599	1,006,889
Instructional Staff	505,107	0	505,107
Board of Education	27,987	0	27,987
Administration	360,344	3,000	363,344
Fiscal	107,940	0	107,940
Operation and Maintenance of Plant	42,375	0	42,375
Central	890	0	890
Extracurricular Activities	0	4,751	4,751
<i>Total Expenditures</i>	<u>5,904,047</u>	<u>437,882</u>	<u>6,341,929</u>
<i>Net Change in Fund Balances</i>	(506,566)	17,995	(488,571)
<i>Fund Balances Beginning of Year</i>	<u>474,093</u>	<u>59,569</u>	<u>533,662</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$32,473)</u>	<u>\$77,564</u>	<u>\$45,091</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, 2010*

**Net Change in Fund Balances - Total Governmental Funds** (\$488,571)

*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 capital outlays exceeded depreciation in the current period.

Capital Asset Additions	33,234	
Depreciation	(24,135)	

Total		9,099
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. (2,908)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues are attributed to grants. 7,253

The internal service fund used by management to charge the cost of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year. (505,249)

Some expenses, such as compensated absences, 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. 8,553

*Change in Net Assets of Governmental Activities* (\$971,823)

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2010*

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	<u>Insurance</u>
<b>Assets</b>	<u>\$0</u>
<b>Liabilities</b>	
Interfund Payable	73,005
Claims Payable	<u>397,604</u>
<i>Total Liabilities</i>	<u>470,609</u>
<b>Net Assets</b>	
Unrestricted	<u><u>(\$470,609)</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Revenues,*

*Expenses and Changes in Fund Net Assets*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2010*

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	<u>Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$1,585,161</u>
<b>Operating Expenses</b>	
Purchased Services	262,835
Claims	<u>1,829,424</u>
<i>Total Operating Expenses</i>	<u>2,092,259</u>
<i>Operating Loss</i>	(507,098)
<b>Non-Operating Revenues</b>	
Interest	<u>1,849</u>
Change in Net Assets	(505,249)
<i>Net Assets Beginning of Year</i>	<u>34,640</u>
<i>Net Assets (Deficit) at End of Year</i>	<u><u>(\$470,609)</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2010*

	<u>Insurance</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund	
Services Provided	\$1,585,161
Cash Payments for Goods and Services	(262,835)
Cash Payments for Claims	<u>(1,582,690)</u>
<i>Net Cash Used for Operating Activities</i>	(260,364)
<b>Cash Flows from Noncapital Financing Activities</b>	
Advances In	73,005
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>1,849</u>
<i>Decrease in Cash and Cash Equivalents</i>	(185,510)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>185,510</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$507,098)
Increase in Claims Payable	<u>246,734</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$260,364)</u></u>
See accompanying notes to the basic financial statements	

**Knox County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2010*

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	Private Purpose Trust	
	Wolfe Estate	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$12,916	<u>\$128,976</u>
<b>Liabilities</b>		
Undistributed Monies	<u>0</u>	<u>\$128,976</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$12,916</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, 2010*

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	<u>Wolfe Estate</u>
<b>Additions</b>	
Interest	\$17
<b>Deductions</b>	
	<u>0</u>
<i>Change in Net Assets</i>	17
<i>Net Assets Beginning of Year</i>	<u>12,899</u>
<i>Net Assets End of Year</i>	<u><u>\$12,916</u></u>

See accompanying notes to the basic financial statements

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## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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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 41 non-certificated and 43 certificated teaching personnel, and 6 administrators who provide services to 8,228 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 two jointly governed organizations and two insurance purchasing pools. These organizations are presented in Notes 9 and 10 to the basic financial statements. These organizations are the Knox County Career Center, Tri-Rivers Educational Computer Association, the Ohio School Boards Association Workers' Compensation Group Rating Program and The Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan.

### **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 and internal service fund 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, 2010*

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### ***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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type. The Educational Service Center, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

### ***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 three categories: governmental, proprietary 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:

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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**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 general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund is a self insurance that accounts for medical, surgical and prescription drug claims for Educational Service Center employees.

**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 (NCO-SERRC). In fiscal year 2010, the services formerly provided by the NCO-SERRC were provided by the State Support Team Region 7 (SST). The remainder of the money in the agency fund will be spent by SST as expenses are incurred.

### **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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e.,

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Educational Service Center finances and meets the cash flow needs of its internal service fund.

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

### ***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 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 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 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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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***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."

During fiscal year 2010, 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, 2010.

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 2010 amounted to \$1,349, which includes \$519 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.

***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

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### ***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.

### ***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 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.

### ***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.

### ***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. Net assets restricted for other purposes include resources restricted for safe and drug free schools.

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.

### ***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.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### ***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.

### **Note 3 – Change in Accounting Principles**

For fiscal year 2010, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, “Accounting and Reporting for Intangible Assets”, Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”, Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments. This Statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. The implementation of this statement did not result in any change to the School District’s financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District’s financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District’s financial statements.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### **Note 4 - Deposits and Investments**

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies 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;
5. Time certificates of deposit or savings or deposit accounts including;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
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. Investments may only be made through specified dealers and institutions.

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

### Investments

As of June 30, 2010, 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 \$288,864 and an average maturity of 56 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 addresses credit risk.

**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 5 - Receivables

Receivables at June 30, 2010, 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>	
Customer Services	\$214,472
21st Century Grant	19,822
Preschool Grant	10,227
ARRA IDEA Preschool Grant	7,029
Early Childhood Special Education Grant	5,850
Alternative Education Grant	4,326
Parent Mentor Grant	3,234
Learn and Serve Grant	2,133
Tuition	<u>1,938</u>
<i>Total Governmental Activities</i>	<u><u>\$269,031</u></u>

### Note 6 - State Funding

The Educational 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 Educational 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

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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.

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 Educational Service Center's local and client school district an amount equal to \$19 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational 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 Educational Service Center.

### Note 7 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 7/1/2009	Additions	Deductions	Balance 6/30/2010
<b>Governmental Activities</b>				
Capital Assets, being Depreciated				
Furniture, Fixtures, and Equipment	\$294,783	\$33,234	(\$20,623)	\$307,394
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(106,651)	(24,135)	17,715	(113,071)
Governmental Activities Capital Assets, Net	\$188,132	\$9,099	(\$2,908)	\$194,323

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

Instruction:	
Regular	\$461
Special	2,333
Support Services:	
Pupils	492
Instructional Staff	16,276
Administration	3,872
Fiscal	701
Total Depreciation Expense	\$24,135

## Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

### Note 8 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2010 were as follows:

	Amount Outstanding 7/1/2009	Additions	Deletions	Amount Outstanding 6/30/2010	Amount Due in One Year
<b>Governmental Activities</b>					
Compensated Absences	\$104,768	\$12,401	\$20,954	\$96,215	\$19,244

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

### Note 9 - 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 2010. 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 38 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 paid \$36,253 for services during fiscal year 2010. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

### Note 10 - Insurance Purchasing Pools

**Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)** 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.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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***The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan*** The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self Insurance Plan, A risk-sharing, claims servicing, and insurance purchasing pool comprised of seventy-five members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plans' business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from \$35,000 to \$100,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$400,000, and all claims between the deductible and the \$400,000 are paid from the internal shared risk pool. The internal pool is not owned by the participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$400,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administration fee for fiscal services and third party administrative services.

### **Note 11 - Risk Management**

#### ***A. Property and Liability***

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 2010, 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.

#### ***B. Workers' Compensation***

For fiscal year 2010, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). 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. 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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

**C. Self-Insurance**

Beginning in fiscal year 2009, the Educational Service Center offered medical, surgical and prescription drug claims coverage to all employees through a self-insurance internal service fund. Self-Funded Plans, Incorporated serves as the third party administrator. (A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$400,000 per employee, per year.) The claims liability of \$397,604 reported in the internal service fund at June 30, 2010 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal year 2009 and 2010 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2009	\$0	\$666,084	\$515,214	\$150,870
2010	150,870	1,829,424	1,582,690	397,604

**Note 12 - Pension Plans**

**A. School Employees Retirement System**

Plan Description - The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746.

Funding Policy - 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 2010, 12.78 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$234,078, \$170,330, and \$147,038, respectively; 78.26 percent has been contributed for fiscal year 2010 and 100 percent has been contributed for fiscal year 2009 and 2008.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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

Plan Description - The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the combined plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, 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. For fiscal year 2009, the portion used to fund pension obligation was also 13 percent. 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.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$291,758, \$287,320, and \$294,358, respectively; 89.76 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$12,132 made by the Educational Service Center and \$13,003 made by the plan members.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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### **Note 13 - Postemployment Benefits**

#### ***A. School Employee Retirement System***

Plan Description - The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$36,632.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$45,057, \$77,355, and \$67,098, respectively; 78.26 percent has been contributed for fiscal years 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$13,737, \$14,504, and \$10,594, respectively; 78.26 percent has been contribution for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

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

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010*

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Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$22,443, \$22,102, and \$22,643, respectively; 89.76 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

### **Note 14 - 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 50 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Life Insurance is provided through Fort Dearborn 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 and prescription drug insurance is provided through OME-RESA (See Note 10). Employees pay \$58 and \$127 monthly for single and family coverage, respectively.

### **Note 15 - 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, 2010.

#### ***B. Litigation***

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

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2010*

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**Note 16 – Interfund Balances**

The balances for advances to/from other funds at June 30, 2010, consisted of the following individual fund receivables and payables.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$78,976	\$0
OME-RESA Self Insurance Plan	0	73,005
Miscellaneous Federal Grant	0	3,747
Public School Preschool	0	2,224
	<u>0</u>	<u>2,224</u>
Totals	<u>\$78,976</u>	<u>\$78,976</u>

Interfund payables in the special revenue funds are due to the timing of the receipt of reimbursements and grant monies received by the various funds. The interfund payable in the internal service fund is due to a cash advance from the general fund to cover the cash deficit. The money is expected to be paid within one year.

**Note 17 – Management Plan Due to Deficit Balances**

The Center has suffered recurring operating losses and has a net asset deficiency. The internal service governmental fund had a deficit balance of net assets of \$470,609 at June 30, 2010. However, the Center's premiums are increasing twenty-four percent for fiscal year 2011. The Center is also looking to change the percentage paid by the board and employees and are looking for other options of providing insurance. The Center's internal service fund balance at January 31, 2011 was (\$113,875).

The general governmental fund had a deficit fund balance of \$32,473 at June 30, 2010. The Center is looking to increase revenue by providing services to an additional school district in fiscal year 2012. The Center is also working on adding an administrative fee to all schools that the Center provides services to. The Center is watching expenditures by only allowing necessary items to be purchased. The Center also has reduced staffing for fiscal year 2011. The Center's general fund balance at January 31, 2011 was \$73,210.

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**Supplemental Information**

**Knox County Educational Service Center**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2010*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$834,799	
Interest			1,524	
Tuition and Fees			290,947	
Contributions and Donations			800	
Customer Services			4,072,208	
Miscellaneous			12,139	
<i>Total Revenues</i>			<u>5,212,417</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	662,140	662,140	500,672	161,468
Special	4,729,076	4,677,202	3,669,505	1,007,697
Support Services:				
Pupils	701,034	701,034	664,388	36,646
Instructional Staff	612,793	612,793	505,589	107,204
Board of Education	36,382	36,382	29,287	7,095
Administration	488,436	488,436	360,868	127,568
Fiscal	133,935	133,935	108,316	25,619
Operation and Maintenance of Plant	95,035	95,035	42,484	52,551
Central	2,000	2,000	1,430	570
<i>Total Expenditures</i>	<u>7,460,831</u>	<u>7,408,957</u>	<u>5,882,539</u>	<u>1,526,418</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	(7,460,831)	(7,408,957)	(670,122)	1,526,418
<b>Other Financing Uses</b>				
Advances In	<u>0</u>	<u>0</u>	<u>2,576</u>	<u>2,576</u>
<i>Net Change in Fund Balance</i>	(7,460,831)	(7,408,957)	(667,546)	
<i>Fund Balance Beginning of Year</i>			796,762	
Prior Year Encumbrances Appropriated			<u>51,880</u>	
<i>Fund Balance End of Year</i>			<u><u>\$181,096</u></u>	

See accompanying notes to the basic financial statements

## **Knox County Educational Service Center**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2010*

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### **Note 1 – Budgetary Basis of Accounting**

#### ***A. Budgetary Process***

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, which represented the appropriation of available resources. The budget figures, which appear in the schedule of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

#### ***B. 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).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not reported by the Educational Service Center on the operating statements (budget), but which is reported on the GAAP basis operating statements.

**Knox County Educational Service Center**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2010*

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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	(\$506,566)
Net Adjustment for Revenue Accruals	(185,035)
Unrecorded Interest	(29)
Net Adjustment for Expenditure Accruals	30,772
Advances In	2,576
Encumbrances	<u>(9,264)</u>
Budget Basis	<u><u>(\$667,546)</u></u>

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# Dave Yost • Auditor of State

## 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 Board of Education:

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, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 14, 2011, wherein we noted the Center experienced certain financial difficulties. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

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

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### **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*.

We did note certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated February 14, 2011.

We intend this report solely for the information and use of management, Board of Education, and others within the Center. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

February 14, 2011