



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, each 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, 2011, 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, each major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the financial statements, the Center has suffered recurring losses from operations and has a net asset deficiency. Note 18 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the financial statements, during the year ended June 30, 2011, the Center adopted Government Accounting Standard No. 54, *Fund Balance Report and Governmental Fund Type Definitions*, which resulted in reclassifications to its governmental fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 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 respective budgetary comparison schedules for the General, Other Grants and Miscellaneous Federal Grants funds, provide additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules for the General fund, Other Grants and Miscellaneous Federal Grants funds, are management's responsibility, and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were 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

December 19, 2011

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
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, 2011. 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 2011 are as follows:

- The Educational Service Center worked to control the cost of health care for employees. Premiums were increased and other changes to the plan were implemented. For more information, see Note 18 to the basic financial statements.
- All employees received a two percent wage increase for fiscal year 2011.
- Through a reduction in force of three Alternative Center teachers and one Alternative Center Aide, the Educational Service Center reduced expenditures. Additional savings were realized when two other Alternative Center teachers resigned.

### **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 most significant funds are the general, other grants, and miscellaneous federal grants funds.

### **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 2011?" 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, 2011  
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 major governmental funds are the general fund, the other grants fund, and the miscellaneous federal grants 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, 2011  
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 2011 compared to 2010:

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

	2011	2010	Change
<b>Assets</b>			
Current and Other Assets	\$141,743	\$457,007	(\$315,264)
Capital Assets, Net	191,669	194,323	(2,654)
<i>Total Assets</i>	<u>333,412</u>	<u>651,330</u>	<u>(317,918)</u>
<b>Liabilities</b>			
Current Liabilities	860,995	875,272	(14,277)
Long-Term Liabilities:			
Due Within One Year	19,518	19,244	274
Due in More Than One Year	78,065	76,971	1,094
<i>Total Liabilities</i>	<u>958,578</u>	<u>971,487</u>	<u>(12,909)</u>
<b>Net Assets</b>			
Invested in Capital Assets	191,669	194,323	(2,654)
Restricted for:			
Staff Development	46,663	41,511	5,152
Other Purposes	20,765	46,363	(25,598)
Unrestricted (Deficit)	<u>(884,263)</u>	<u>(602,354)</u>	<u>(281,909)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>(\$625,166)</u></u>	<u><u>(\$320,157)</u></u>	<u><u>(\$305,009)</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 2010 to 2011. Liabilities decreased, due primarily to lower accrued wages payable.

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited*

Table 2 shows revenues, expenses and changes in net assets for fiscal years 2011 and 2010.

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$4,581,769	\$4,554,330	\$27,439
Operating Grants and Contributions	1,104,209	1,012,164	92,045
Total Program Revenues	<u>5,685,978</u>	<u>5,566,494</u>	<u>119,484</u>
General Revenues:			
Grants and Entitlements	278,015	280,629	(2,614)
Investment Earnings	4,698	3,198	1,500
Miscellaneous	337	12,139	(11,802)
Total General Revenues	<u>283,050</u>	<u>295,966</u>	<u>(12,916)</u>
Total Revenues	<u>5,969,028</u>	<u>5,862,460</u>	<u>106,568</u>
<b>Program Expenses</b>			
Instruction:			
Regular	132,426	594,686	462,260
Special	3,587,908	4,039,504	451,596
Support Services:			
Pupils	582,429	741,530	159,101
Instructional Staff	987,214	873,696	(113,518)
Board of Education	25,859	27,987	2,128
Administration	760,001	389,310	(370,691)
Fiscal	104,865	119,554	14,689
Operation and Maintenance of Plant	81,396	42,375	(39,021)
Central	2,115	890	(1,225)
Extracurricular Activities	9,824	4,751	(5,073)
Total Program Expenses	<u>6,274,037</u>	<u>6,834,283</u>	<u>560,246</u>
Increase (Decrease) in Net Assets	(305,009)	(971,823)	666,814
<i>Net Assets Beginning of Year</i>	<u>(320,157)</u>	<u>651,666</u>	<u>(971,823)</u>
<i>Net Assets (Deficit) End of Year</i>	<u><u>(\$625,166)</u></u>	<u><u>(\$320,157)</u></u>	<u><u>(\$305,009)</u></u>

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited*

**Governmental Activities**

A review of Table 2 shows the Educational Service Center net assets decreased from fiscal year 2010. While revenues increased due to more charges for services and grants, expenses were not reduced enough to stay within the revenues available to spend. The Educational Service Center reduced expenses in fiscal year 2011 by reducing the budgets of all consultants and departments. As described in "Financial Highlights" the Alternative Center had reductions in force and resignations of employees. One-on-one Aide positions were reduced and every purchase was scrutinized. The significant increase in administration expense is due to employees moving from one category to another, and is offset by decreases in the regular and special instruction expense lines.

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 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$132,426	(\$90,568)	\$594,686	(\$554,155)
Special	3,587,908	1,545,950	4,039,504	1,063,860
Support Services:				
Pupils	582,429	(582,429)	741,530	(741,530)
Instructional Staff	987,214	(489,652)	873,696	(460,033)
Board of Education	25,859	(25,859)	27,987	(27,987)
Administration	760,001	(756,001)	389,310	(386,310)
Fiscal	104,865	(104,865)	119,554	(119,554)
Operation and Maintenance of Plant	81,396	(81,396)	42,375	(42,375)
Central	2,115	(2,115)	890	(890)
Extracurricular Activities	9,824	(1,124)	4,751	1,185
<b>Total</b>	<b>\$6,274,037</b>	<b>(\$588,059)</b>	<b>\$6,834,283</b>	<b>(\$1,267,789)</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 \$5,976,176 and expenditures of \$6,256,734. General fund is the most significant and had the largest decrease in fund balance. This decrease was caused by expenditures outpacing revenues during the fiscal year.

## Knox County Educational Service Center

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
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 \$6,615,887, which was slightly higher than the original estimate of \$6,533,046.

The general fund's unencumbered ending cash balance totaled (\$57,719), which was less than the beginning unencumbered cash balance of \$181,096. The Educational Service Center's actual expenditures were well below the amount that was appropriated.

### Capital Assets

Table 4 shows fiscal 2011 values compared to 2010. More detailed information is presented in Note 8 to the basic financial statements.

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Furniture, Fixtures and Equipment	<u>\$191,669</u>	<u>\$194,323</u>	<u>(\$2,654)</u>

All capital assets are reported net of depreciation. As one can see, there was a slight decrease in capital assets during the fiscal year. The annual depreciation on capital assets outpaced the purchases of capital assets made during fiscal year 2011.

### Debt

At June 30, 2011, 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 9 to the basic financial statements.

### 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 other grants fund advanced \$14,362 to the general fund to offset deficit balances, with anticipation of returning the money in fiscal year 2012. A twenty-four percent increase in insurance premiums was implemented effective July 1, 2010 and employees were responsible for a greater share of the premium in fiscal year 2011. The Educational Service Center continues to explore ways of reducing the deficit.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
Unaudited*

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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 House Bill 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. One example of this is the 21<sup>st</sup> Century grant, which provided \$369,800 in funding during fiscal year 2011 to pay for after school activities for students at the Alternative Center and staffing at the Alternative Center. Additional revenue was generated by providing professional development to the School 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).

## **Basic Financial Statements**

**Knox County Educational Service Center**

*Statement of Net Assets*

*June 30, 2011*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$106,231
Accounts Receivable	867
Intergovernmental Receivable	34,645
Depreciable Capital Assets, Net	<u>191,669</u>
<i>Total Assets</i>	<u>333,412</u>
<b>Liabilities</b>	
Accounts Payable	3,530
Accrued Wages Payable	255,527
Intergovernmental Payable	167,516
Matured Compensated Absences Payable	3,346
Claims Payable	431,076
Long-Term Liabilities:	
Due Within One Year	19,518
Due In More Than One Year	<u>78,065</u>
<i>Total Liabilities</i>	<u>958,578</u>
<b>Net Assets</b>	
Invested in Capital Assets	191,669
Restricted for:	
Staff Development	46,663
Other Purposes	20,765
Unrestricted (Deficit)	<u>(884,263)</u>
<i>Total Net Assets (Deficit)</i>	<u><u>(\$625,166)</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, 2011*

	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	\$132,426	\$0	\$41,858	(\$90,568)
Special	3,587,908	4,573,069	560,789	1,545,950
Support Services:				
Pupils	582,429	0	0	(582,429)
Instructional Staff	987,214	0	497,562	(489,652)
Board of Education	25,859	0	0	(25,859)
Administration	760,001	0	4,000	(756,001)
Fiscal	104,865	0	0	(104,865)
Operation and Maintenance of Plant	81,396	0	0	(81,396)
Central	2,115	0	0	(2,115)
Extracurricular Activities	9,824	8,700	0	(1,124)
<i>Totals</i>	<u>\$6,274,037</u>	<u>\$4,581,769</u>	<u>\$1,104,209</u>	<u>(588,059)</u>

**General Revenues**

Grants and Entitlements not Restricted to Specific Programs	278,015
Investment Earnings	4,698
Miscellaneous	337
<i>Total General Revenues</i>	<u>283,050</u>
Change in Net Assets	(305,009)
<i>Net Assets (Deficit)</i>	
<i>Beginning of Year</i>	<u>(320,157)</u>
<i>Net Assets (Deficit) End of Year</i>	<u>(\$625,166)</u>

See accompanying notes to the basic financial statements



**Knox County Educational Service Center**

*Balance Sheet*

*Governmental Funds*

*June 30, 2011*

	General	Other Grants	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$0	\$32,301	\$49,342	\$24,588	\$106,231
Accounts Receivable	867	0	0	0	867
Interfund Receivable	24,810	14,362	0	0	39,172
Intergovernmental Receivable	28,036	0	0	6,609	34,645
<i>Total Assets</i>	<u>\$53,713</u>	<u>\$46,663</u>	<u>\$49,342</u>	<u>\$31,197</u>	<u>\$180,915</u>
 <b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$2,973	\$0	\$557	\$0	\$3,530
Accrued Wages Payable	229,180	0	10,202	16,145	255,527
Interfund Payable	14,362	0	24,810	0	39,172
Intergovernmental Payable	107,476	0	2,839	4,492	114,807
Matured Compensated Absences Payable	3,346	0	0	0	3,346
<i>Total Liabilities</i>	<u>357,337</u>	<u>0</u>	<u>38,408</u>	<u>20,637</u>	<u>416,382</u>
 <b>Fund Balances</b>					
Restricted	0	46,663	10,934	10,569	68,166
Assigned	38,253	0	0	0	38,253
Unassigned (Deficit)	(341,877)	0	0	(9)	(341,886)
<i>Total Fund Balances (Deficit)</i>	<u>(303,624)</u>	<u>46,663</u>	<u>10,934</u>	<u>10,560</u>	<u>(235,467)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$53,713</u>	<u>\$46,663</u>	<u>\$49,342</u>	<u>\$31,197</u>	<u>\$180,915</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, 2011*

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<b>Total Governmental Funds Balances</b>	(\$235,467)
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*Amounts reported for governmental activities in the  
statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	191,669
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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.	(483,785)
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Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(97,583)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>(\$625,166)</u></u>
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See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2011*

	General	Other Grants	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Intergovernmental	\$814,885	\$0	\$364,980	\$182,089	\$1,361,954
Interest	4,593	0	0	0	4,593
Tuition and Fees	239,414	0	0	0	239,414
Extracurricular Activities	0	0	0	8,700	8,700
Contributions and Donations	120	27,403	0	0	27,523
Customer Services	4,333,655	0	0	0	4,333,655
Miscellaneous	337	0	0	0	337
<i>Total Revenues</i>	<u>5,393,004</u>	<u>27,403</u>	<u>364,980</u>	<u>190,789</u>	<u>5,976,176</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	96,232	0	0	38,822	135,054
Special	3,547,469	19,119	0	33,204	3,599,792
Support Services:					
Pupils	579,868	0	0	0	579,868
Instructional Staff	504,534	3,132	378,051	106,427	992,144
Board of Education	25,859	0	0	0	25,859
Administration	725,308	0	0	4,000	729,308
Fiscal	101,374	0	0	0	101,374
Operation and Maintenance of Plant	81,396	0	0	0	81,396
Central	2,115	0	0	0	2,115
Extracurricular Activities	0	0	0	9,824	9,824
<i>Total Expenditures</i>	<u>5,664,155</u>	<u>22,251</u>	<u>378,051</u>	<u>192,277</u>	<u>6,256,734</u>
<i>Net Change in Fund Balances</i>	(271,151)	5,152	(13,071)	(1,488)	(280,558)
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(32,473)</u>	<u>41,511</u>	<u>24,005</u>	<u>12,048</u>	<u>45,091</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$303,624)</u>	<u>\$46,663</u>	<u>\$10,934</u>	<u>\$10,560</u>	<u>(\$235,467)</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, 2011*

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**Net Change in Fund Balances - Total Governmental Funds** (\$280,558)

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

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

Capital Asset Additions	25,962	
Depreciation	(28,186)	
	(28,186)	

Total (2,224)

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. (430)

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. (13,176)

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. (1,368)

*Change in Net Assets of Governmental Activities* (\$305,009)

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2011*

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	<u>Insurance</u>
<b>Assets</b>	<u>\$0</u>
<b>Liabilities</b>	
Intergovernmental Payable	52,709
Claims Payable	<u>431,076</u>
<i>Total Liabilities</i>	<u>483,785</u>
<b>Net Assets</b>	
Unrestricted (Deficit)	<u><u>(\$483,785)</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, 2011*

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	<u>Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$1,845,602</u>
<b>Operating Expenses</b>	
Purchased Services	301,000
Claims	<u>1,557,883</u>
<i>Total Operating Expenses</i>	<u>1,858,883</u>
<i>Operating Loss</i>	(13,281)
<b>Non-Operating Revenues</b>	
Interest	<u>105</u>
Change in Net Assets	(13,176)
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(470,609)</u>
<i>Net Assets (Deficit) at End of Year</i>	<u><u>(\$483,785)</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, 2011*

	<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	\$1,845,602
Cash Payments for Goods and Services	(301,000)
Cash Payments for Claims	<u>(1,524,411)</u>
<i>Net Cash Provided by Operating Activities</i>	20,191
<b>Cash Flows from Noncapital Financing Activities</b>	
Loan from Insurance Pool	52,709
Advances Out	<u>(73,005)</u>
<i>Net Cash Used in Noncapital Financing Activities</i>	<u>(20,296)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>105</u>
<i>Increase in Cash and Cash Equivalents</i>	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating Loss	(\$13,281)
Increase in Claims Payable	<u>33,472</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$20,191</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2011*

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	Private Purpose Trust	
	Wolfe Estate	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$12,931	<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>\$12,931</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, 2011*

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	<u>Wolfe Estate</u>
<b>Additions</b>	
Interest	\$15
<b>Deductions</b>	<u>0</u>
<i>Change in Net Assets</i>	15
<i>Net Assets Beginning of Year</i>	<u>12,916</u>
<i>Net Assets End of Year</i>	<u><u>\$12,931</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, 2011*

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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 44 non-certificated and 41 certificated teaching personnel, and 2 administrators who provide services to 8,332 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 10 and 11 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, 2011*

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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 are the Educational Service Center's major governmental funds:

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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

**Other Grants Fund** This fund accounts for various restricted monies received for programs supported by grants.

**Miscellaneous Federal Grants Fund** This fund accounts for various restricted monies received through State agencies from the Federal government or directly from the Federal government which are not classified elsewhere.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted, committed, or assigned 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, dental, vision 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 2011, 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

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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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., 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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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**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.

**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 2011, 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, 2011.

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 2011 amounted to \$4,593, all of which was 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

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### ***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.

### ***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.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments came due each period upon the occurrence of employee retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund from which the employees who have retired will be paid.

### ***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***

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

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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



## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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

**Assigned** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education.

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

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

### ***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.

### ***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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

**Note 3 – Change in Accounting Principles**

For fiscal year 2011, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in any change in the Educational Service Center’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the Educational Service Center’s financial statements.

**Note 4 – Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Other Grants	Miscellaneous Federal Grants	Nonmajor Governmental Funds	Total
<b><i>Restricted for</i></b>					
Student Activities	\$0	\$0	\$0	\$1,370	\$1,370
Professional Development	0	0	10,934	0	10,934
Technology	0	0	0	6,916	6,916
Preschool	0	0	0	928	928
Alternative Center	0	0	0	1,355	1,355
Other Purposes	0	46,663	0	0	46,663
<b><i>Total Restricted</i></b>	<b>0</b>	<b>46,663</b>	<b>10,934</b>	<b>10,569</b>	<b>68,166</b>
<b><i>Assigned to</i></b>					
Other Purposes	38,253	0	0	0	38,253
<b><i>Unassigned (Deficit)</i></b>	<b>(341,877)</b>	<b>0</b>	<b>0</b>	<b>(9)</b>	<b>(341,886)</b>
<b><i>Total Fund Balances</i></b>	<b>(\$303,624)</b>	<b>\$46,663</b>	<b>\$10,934</b>	<b>\$10,560</b>	<b>(\$235,467)</b>

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 5 - 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, 2011

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### Investments

As of June 30, 2011, 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 \$167,142 and an average maturity of 53.8 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 6 - Receivables

Receivables at June 30, 2011, 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	\$28,036
Early Childhood Special Education Grant	<u>6,609</u>
<i>Total Governmental Activities</i>	<u><u>\$34,645</u></u>

### Note 7 - 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 from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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. The calculated funding is then reduced by 9.84 percent, due to a State budget reduction. 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 \$6.50 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 8 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>7/1/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2011</u>
<b>Governmental Activities</b>				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	\$307,394	\$25,962	(\$4,302)	\$329,054
Less Accumulated Depreciation	<u>(113,071)</u>	<u>(28,186)</u>	<u>3,872</u>	<u>(137,385)</u>
Governmental Activities Capital Assets, Net	<u>\$194,323</u>	<u>(\$2,224)</u>	<u>(\$430)</u>	<u>\$191,669</u>

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

Instruction:	
Regular	\$490
Special	2,815
Support Services:	
Pupils	509
Instructional Staff	19,817
Administration	3,779
Fiscal	<u>776</u>
Total Depreciation Expense	<u>\$28,186</u>

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### Note 9 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2011 were as follows:

	Amount Outstanding 7/1/2010	Additions	Deletions	Amount Outstanding 6/30/2011	Amount Due in One Year
<b>Governmental Activities</b>					
Compensated Absences	\$96,215	\$20,612	\$19,244	\$97,583	\$19,518

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

### Note 10 - 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 2011. 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 \$33,272 for services during fiscal year 2011. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

### Note 11 - 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.

***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

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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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, vision 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 12 - Risk Management**

#### ***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 2011, 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.

#### ***Workers' Compensation***

For fiscal year 2011, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). 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, 2011*

***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 \$431,076 reported in the internal service fund at June 30, 2011 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 2010 and 2011 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2010	\$150,870	\$1,829,424	\$1,582,690	\$397,604
2011	397,604	1,557,883	1,524,411	431,076

**Note 13 - Pension Plans**

***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 on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board acting with the advices of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ended June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contributions rate is allocated to the Health Care and Medicare B funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$229,345, \$234,078, and \$170,330, respectively. For 2011, 81.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.



## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### ***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 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 monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, 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.

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$271,119 and \$0 for the fiscal year ended June 30, 2011, \$287,420 and \$4,338 for the fiscal year ended June 30, 2010, and \$283,048 and \$4,272 for the fiscal year ended June 30, 2009. For fiscal year 2011, 92.10 percent has been contributed for the DB plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$6,963 made by the Educational Service Center and \$4,974 made by the plan members. There were no member contributions made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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### **Note 14 - Postemployment Benefits**

#### ***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 can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 2011, 1.43 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 2011, this amount was \$35,800. During fiscal year 2011, the Educational Service Center paid \$38,839 in surcharge.

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, 2011, 2010, and 2009 were \$66,609, \$45,057, and \$77,355, respectively. For 2011, 81.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$14,759, \$13,737, and \$14,504, respectively. For 2011, 81.04 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

#### ***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.

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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011*

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Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$20,855, \$22,443, and \$22,102, respectively. For 2011, 92.10 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

### **Note 15 - 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 11). Employees pay \$86 and \$158 monthly for single and family coverage, respectively.

### **Note 16 - Contingencies**

#### ***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, 2011.

#### ***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, 2011*

**Note 17 – Interfund Balances**

The balances for advances to/from other funds at June 30, 2011, consisted of the following individual fund receivables and payables.

	Interfund Receivable	Interfund Payable
General	\$24,810	\$14,362
Other Grants	14,362	0
Miscellaneous Federal Grant	0	24,810
Totals	<u>\$39,172</u>	<u>\$39,172</u>

The interfund payable in the general fund is due to a cash advance from the other grants fund to cover cash deficits. The money is expected to be paid within one year. See Note 18 for management’s plan to address this deficit. The interfund payable in the miscellaneous federal grant fund is a prior year advance due to the timing and receipt of grant monies.

**Note 18 – Management Plan Due to Deficit Balances**

The Educational Service Center has suffered recurring operating losses, including an operating loss of governmental funds of \$280,558 during fiscal year 2011, and the Educational Service Center has a net asset deficiency at June 30, 2011 of \$625,166.

The general fund had a deficit fund balance of \$303,624 at June 30, 2011 and a deficit cash balance of \$63,850 at November 30, 2011. To offset this deficit the Educational Service Center worked to generate additional revenue by providing additional speech and aide services. Services were also provided to both the Knox and Coshocton County Boards of Developmental Disabilities and St. Vincent DePaul School. Services were increased to Fredericktown Local School District and Mount Vernon City School District. The Educational Service Center added an administrative fee which was paid by all schools that the Educational Service Center serves. The Educational Service Center watched expenditures by only allowing necessary items to be purchased. The Educational Service Center also reduced staffing during fiscal year 2011. In fiscal year 2012, the Educational Service Center is reducing the cost of rent and utilities by moving to a different office space.

Also, at June 30, 2011, the internal service fund had a deficit cash balance of \$52,709 at the Educational Service Center’s insurance pool, which is shown as an intergovernmental payable on the balance sheet. In addition, the Educational Service Center has an operating loss of \$13,281 and a deficit net asset balance of \$483,785 at June 30, 2011. The Educational Service Center had a deficit cash balance of \$239,135 at the insurance pool at November 30, 2011. The Educational Service Center's premiums increased twenty-four percent for fiscal year 2011, in an attempt to correct the deficit that existed at June 30, 2010. The Educational Service Center also increased deductibles and copays and had another five percent premium increase for fiscal year 2012. By having the employees pay a larger share of the total premium, the Educational Service Center continues to pay the same premium amount as in the past. Another round of changes to health insurance benefits, including increasing deductibles and switching to a health savings account, will occur during the second half fiscal year 2012. It should be noted, that since the majority of the Educational Service Center’s employees are paid from the general fund, these losses will ultimately have to be funded by increases in participation fees or from general fund operating expenditures.

**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, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$814,885	
Interest			4,603	
Tuition and Fees			241,352	
Contributions and Donations			120	
Customer Services			4,519,944	
Miscellaneous			337	
<i>Total Revenues</i>			<u>5,581,241</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	160,237	162,499	146,423	16,076
Special	4,022,036	4,078,825	3,619,202	459,623
Support Services:				
Pupils	637,970	645,533	610,438	35,095
Instructional Staff	600,230	608,401	527,416	80,985
Board of Education	49,360	48,739	25,912	22,827
Administration	838,433	844,035	715,110	128,925
Fiscal	127,894	129,601	101,837	27,764
Operation and Maintenance of Plant	94,914	96,254	81,504	14,750
Central	1,972	2,000	1,485	515
<i>Total Expenditures</i>	<u>6,533,046</u>	<u>6,615,887</u>	<u>5,829,327</u>	<u>786,560</u>
<i>Net Change in Fund Balance</i>	(6,533,046)	(6,615,887)	(248,086)	
<i>Fund Balance Beginning of Year</i>			181,096	
Prior Year Encumbrances Appropriated			<u>9,271</u>	
<i>Fund Balance End of Year</i>			<u><u>(\$57,719)</u></u>	

See accompanying notes to the supplemental information

**Supplemental Information**

**Knox County Educational Service Center**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Other Grants Fund*  
*For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Contributions and Donations			\$27,403	
<b>Expenditures</b>				
Current:				
Instruction:				
Special	39,495	35,905	19,328	16,577
Support Services:				
Instructional Staff	2,014	25,635	3,132	22,503
<i>Total Expenditures</i>	41,509	61,540	22,460	39,080
<i>Net Change in Fund Balance</i>	(41,509)	(61,540)	4,943	
<i>Fund Balance Beginning of Year</i>			39,495	
Prior Year Encumbrances Appropriated			2,014	
<i>Fund Balance End of Year</i>			\$46,452	

See accompanying notes to the supplemental information

**Supplemental Information**

**Knox County Educational Service Center**  
*Schedule of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Miscellaneous Federal Grants Fund*  
*For the Fiscal Year Ended June 30, 2011*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$386,935	
<b>Expenditures</b>				
Current:				
Support Services:				
Instructional Staff	206,058	404,537	363,423	41,114
<i>Net Change in Fund Balance</i>	(206,058)	(404,537)	23,512	
<i>Fund Balance Beginning of Year</i>			8,296	
Prior Year Encumbrances Appropriated			9,307	
<i>Fund Balance End of Year</i>			<u>\$41,115</u>	

See accompanying notes to the supplemental information

## **Knox County Educational Service Center**

*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2011*

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

#### ***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.

#### ***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 and major special revenue funds 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 restricted, committed, or assigned fund balance (GAAP basis).
4. 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, 2011*

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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

	Net Change in Fund Balance General and Major Special Revenue Funds		
	General	Other Grants	Miscellaneous Federal Grants
GAAP Basis	<u>(\$271,151)</u>	<u>\$5,152</u>	<u>(\$13,071)</u>
Net Adjustment for Revenue Accruals	188,256	0	21,955
Unrecorded Interest	(19)	0	0
Net Adjustment for Expenditure Accruals	(121,834)	2	22,855
Encumbrances	<u>(43,338)</u>	<u>(211)</u>	<u>(8,227)</u>
Budget Basis	<u><u>(\$248,086)</u></u>	<u><u>\$4,943</u></u>	<u><u>\$23,512</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, each 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, 2011, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 19, 2011, wherein we noted the Center experienced certain financial difficulties. We also noted the Center adopted Government Accounting Standard 54 which resulted in reclassification to governmental fund balances. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-01 and 2011-02 described in the accompanying schedule of findings to be material weaknesses.

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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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated December 19, 2011.

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Center's responses and, accordingly, we express no opinion on them.

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.



**Dave Yost**  
Auditor of State

December 19, 2011

EDUCATIONAL SERVICE CENTER  
KNOX COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2011

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

FINDING NUMBER 2011-01

**Financial statement presentation – Material weakness**

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Center's financial statements.

The following errors were noted involving the Center's financial statement presentation:

<b>Posting Error</b>	<b>Opinion Unit</b>	<b>Amount</b>
Overstated intergovernmental receivable	Governmental Activities & General Fund	\$ 125,111
Reclass from Tuition & Fees to Contribution and Donations	Other grants	\$ 5,500
Understated interfund receivable and payable	General & Misc Federal Grants	\$ 21,063

Not presenting financial information accurately resulted in the financial statements requiring the above audit adjustments and reclassification entries, including additional time and effort to identify variances and discrepancies.

We recommend the Treasurer take steps to ensure the accurate presentation of the financial statements. Financial transactions should be posted in accordance with procedures established by generally accepted accounting principles (GAAP). If necessary, those assigned to identify and summarize GAAP financial information should receive training related to GAAP reporting. By exercising accuracy in recording financial activity, the Center can reduce posting errors and increase the reliability of the financial data throughout the year and at year end.

The Center's financial statements and accounting records have been adjusted to accurately reflect the above adjustments and proper line item classifications.

**Officials' response:** Several invoices to a local school were improperly reported as accounts receivable at year end, however the services had not been provided by June 30, 2011. The Treasurer will review the accounts receivable listing in a more detailed manner to assure these type of transactions do not appear in the year end accounts receivable totals.

EDUCATIONAL SERVICE CENTER  
KNOX COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2011  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2011-02

**Restricted Grant Funds – Material Non-Compliance and Material Weakness**

The ESC maintains several restricted federal and state grant funds which must be strictly spent for activities outlined in the grant agreement. For instance, the ESC participates in a federal 21<sup>st</sup> Century Grant. Federal Circular A-87 and 2 C.F.R. Part 225, Appendix A Section C3 require that an entity document all federal expenditures and they must be for the proper performance of the federal award and be subject to the terms and conditions of the federal award. In addition, the ESC maintains a private purpose trust fund which is restricted for student scholarships and several agency funds restricted for those operations outside the ESC.

Although the ESC is not required to follow the budgetary requirements as outlined in the Ohio Revised Code 5705, a sound internal control policy requiring a budget to be maintained by the Treasurer and reviewed by the Board should be in place.

As a general practice (see Note 2) to improve cash management the ESC pools all cash received. Throughout fiscal year 2011, the Center was experiencing financial difficulties and the General Operating Fund had a negative cash fund balance as of May 31, 2011 and June 30, 2011 in the amount of \$148,587 and \$14,362, respectively. As a result of the deficit General Fund balance and the ESC practice of pooling all cash, various restricted funds were used to pay obligations of the ESC's General Operating Fund. The ESC does not have a policy in place to assure the restricted funds can cover expenditures in the General Fund that created the deficit.

Failure to follow certain expenditure restrictions, involving the type of funds the ESC maintains, could result in various ramifications; including, loss of grant funds, potential federal questioned costs if a single audit was performed, litigation associated with trust fund corpus requirements and/or agency contract requirements.

As for general operations (see Supplemental Information Note 1), it is a policy of the ESC to prepare an annual budget of general operations based on the Center's resources and needs. Also, the Center creates a one year forecast of receipts and expenditures. Although a budget was prepared, the Center's final General Fund appropriations exceeded total resources which is unencumbered balances plus actual receipts at June 30, 2011 by \$853,489. Failure to have realistic appropriations in place throughout the year increases the chances of expenditures exceeding actual resources, and potentially contributed to the deficit spending noted above.

We recommend the Center actively seek ways to increase fund balance in the General Fund which will alleviate the need for the ESC's restricted funds to cover general operating expenditures.

EDUCATIONAL SERVICE CENTER  
KNOX COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2011  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2011-02 (Continued)

**Restricted Grant Funds – Material Non-Compliance and Material Weakness (Continued)**

We also recommend the Center's Treasurer and Board review its current budget process and cash forecasting benchmarks and develop appropriations based on anticipated needs, existing fund balances and anticipated revenue based on concise historical data. We also recommend the Treasurer complete a five year budget forecast similar to requirements for local school districts. The Treasurer and the Board should re-evaluate the budget and five year forecast throughout the year. These changes will allow for better monitoring of budget versus actual activity, less chance for overspending, eliminating significant deficits and the ability to adapt to changing cash flow needs more readily.

**Officials' response:** The Superintendent and Treasurer are working closely regarding the budget and all areas of revenues and expenditures. The 2012 budget was reduced significantly in many areas and the Board, Superintendent and Treasurer recognize the need to assure the General Operating Fund maintains a positive balance. The Center will continue to evaluate ways to increase revenue and decrease expenditures.

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# Dave Yost • Auditor of State

**KNOX EDUCATIONAL SERVICE CENTER**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 26, 2012**