



Dave Yost • Auditor of State

**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	5
Statement of Net Position	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Fund Net Position – Internal Service Fund.....	19
Statement of Revenue, Expenses, and Changes in Fund Net Position Internal Service Fund	20
Statement of Cash Flows – Internal Service Fund	21
Statement of Fiduciary Net Position – Fiduciary Funds.....	22
Statement of Changes in Fiduciary Net Position – Private Purpose Trust Fund	23
Notes to the Basic Financial Statements	25
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	41
Notes to the Supplemental Information.....	42
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	45

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Service Center Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio, (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

The Budgetary Comparison schedule for the General fund presents additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

April 14, 2015

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Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited*

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, 2014. 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 2014 are as follows:

- The Educational Service Center needed to control the cost of health care for employees and no longer offered full medical insurance as of July 1, 2012. Employees are offered an indemnity plan which offers limited medical reimbursement, with the Educational Service Center paying one hundred percent of the cost.
- Employees received no salary or step increase as of July 1, 2013.
- The Learning Center (Alternative Center) switched over to a virtual school process in fiscal year 2012 through the 21st Century Grant. In fiscal year 2014, revenues from the Virtual Academy more than provided for the related expenses.

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 Position 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 fund is the general fund.

Reporting the Educational Service Center as a Whole

Statement of Net Position 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 2014?" The *Statement of Net Position* and *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources 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.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited*

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

In the Statement of Net Position 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 fund is the general fund.

Governmental Funds

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

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 dental and vision self insurance. The internal service 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, 2014
Unaudited*

The Educational Service Center as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2014 compared to 2013:

**Table 1
Net Position
Governmental Activities**

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Assets			
Current and Other Assets	\$914,078	\$666,586	\$247,492
Capital Assets, Net	<u>123,089</u>	<u>147,138</u>	<u>(24,049)</u>
<i>Total Assets</i>	<u>1,037,167</u>	<u>813,724</u>	<u>223,443</u>
Liabilities			
Current Liabilities	411,079	358,207	52,872
Long-Term Liabilities:			
Due Within One Year	53,945	17,732	36,213
Due in More Than One Year	<u>178,682</u>	<u>70,928</u>	<u>107,754</u>
<i>Total Liabilities</i>	<u>643,706</u>	<u>446,867</u>	<u>196,839</u>
Net Position			
Net Investment in Capital Assets	123,089	147,138	(24,049)
Restricted for:			
Staff Development	37,772	34,419	3,353
Other Purposes	5,469	19,519	(14,050)
Unrestricted	<u>227,131</u>	<u>165,781</u>	<u>61,350</u>
<i>Total Net Position</i>	<u><u>\$393,461</u></u>	<u><u>\$366,857</u></u>	<u><u>\$26,604</u></u>

The increase in current assets was primarily due to an increase in the Educational Service Center's cash balance as revenues outpaced expenses during fiscal year 2014. Liabilities increased, due to higher accrued wages payable and compensated absences.

Knox County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

Table 2 shows revenues, expenses and changes in net position for fiscal years 2013 and 2012.

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services and Sales	\$4,734,038	\$4,600,665	\$133,373
Operating Grants and Contributions	390,131	990,501	(600,370)
Total Program Revenues	<u>5,124,169</u>	<u>5,591,166</u>	<u>(466,997)</u>
General Revenues:			
Grants and Entitlements	436,487	291,306	145,181
Investment Earnings	129	3,854	(3,725)
Miscellaneous	33,567	4,360	29,207
Total General Revenues	<u>470,183</u>	<u>299,520</u>	<u>170,663</u>
Total Revenues	<u>5,594,352</u>	<u>5,890,686</u>	<u>(296,334)</u>
Program Expenses			
Instruction:			
Regular	139,386	153,598	14,212
Special	3,394,180	3,041,546	(352,634)
Support Services:			
Pupils	719,857	697,475	(22,382)
Instructional Staff	399,022	762,818	363,796
Board of Education	21,356	26,176	4,820
Administration	743,616	572,461	(171,155)
Fiscal	116,716	99,262	(17,454)
Operation and Maintenance of Plant	26,271	27,379	1,108
Central	3,390	3,530	140
Extracurricular Activities	3,954	4,689	735
Total Program Expenses	<u>5,567,748</u>	<u>5,388,934</u>	<u>(178,814)</u>
Increase in Net Position	26,604	501,752	(475,148)
<i>Net Position (Deficit) Beginning of Year</i>	<u>366,857</u>	<u>(134,895)</u>	<u>501,752</u>
<i>Net Position End of Year</i>	<u><u>\$393,461</u></u>	<u><u>\$366,857</u></u>	<u><u>\$26,604</u></u>

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited*

Governmental Activities

A review of Table 2 shows the Educational Service Center net position increased from fiscal year 2013. While revenues decreased due to operating grants, expenses were kept within the revenues available to spend. The Educational Service Center drastically reduced expenses in fiscal year 2013 by reducing the budgets of all consultants and departments. Every purchase was scrutinized. In fiscal year 2014, expenses rose slightly; however, expenses are still being monitored extremely closely in order to stay within revenues.

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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Governmental Activities:				
Instruction:				
Regular	\$139,386	(\$139,386)	\$153,598	(\$151,798)
Special	3,394,180	1,508,253	3,041,546	2,206,574
Support Services:				
Pupils	719,857	(679,978)	697,475	(656,828)
Instructional Staff	399,022	(222,712)	762,818	(468,124)
Board of Education	21,356	(21,356)	26,176	(26,176)
Administration	743,616	(743,616)	572,461	(572,461)
Fiscal	116,716	(116,716)	99,262	(99,262)
Operation and Maintenance of Plant	26,271	(26,271)	27,379	(27,379)
Central	3,390	(3,390)	3,530	(3,530)
Extracurricular Activities	3,954	1,593	4,689	1,216
Total	\$5,567,748	(\$443,579)	\$5,388,934	\$202,232

The Educational Service Center's Funds

Information regarding the Educational Service Center's governmental funds can be found on pages 13 through 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,768,506 and expenditures of \$5,405,455. General fund is the most significant and had the largest increase in fund balance. This increase was caused by revenues outpacing expenditures during the fiscal year and a slight decrease in expenditures from the prior year.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited*

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 \$5,479,296, which was the same as the original estimate. Actual expenditures were \$495,701 lower than the final estimate, due to conservative budgeting.

The general fund's unencumbered ending cash balance totaled \$543,787, which was significantly more than the beginning unencumbered cash balance of \$322,551. This is due to reductions in expenditures during fiscal year 2013.

Capital Assets

Table 4 shows fiscal 2014 values compared to 2013. More detailed information is presented in Note 7 to the basic financial statements.

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

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Furniture, Fixtures and Equipment	<u>\$123,089</u>	<u>\$147,138</u>	<u>(\$24,049)</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. No purchases of capital assets were made during fiscal year 2014.

Debt

At June 30, 2014, the Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences. For additional information on long-term liabilities, see Note 8 to the basic financial statements.

Current Related Financial Activities

In prior fiscal years, the Knox County Educational Service Center faced several cash flow issues related to self insurance and rising expenditures in the general fund. A fifteen percent increase in insurance premiums was implemented effective July 1, 2011 and employees were responsible for the entire premium increase in fiscal year 2012. The Educational Service Center continued to explore ways of reducing the deficit in fiscal year 2013 and was able to end the year with a positive cash balance in the general fund. The largest savings in fiscal year 2013 was the elimination of the medical and prescription drug insurance coverage that was

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited*

previously provided through a self-insured program. The only medical coverage provided to employees in fiscal year 2014 is an indemnity plan that provides limited reimbursement for medical expenses. This plan has a much lower cost to the Educational Service Center, as compared to the self-insured program, but provides much less coverage to employees. The preschool program held a fundraiser in fiscal year 2014 to help pay for field trips and supplies during the school year.

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 21st Century grant, which provided funding during fiscal year 2014 to pay for after school activities for students at the Learning Center and funded the staff participating in the program. The Virtual Academy that was established in fiscal year 2012 more than paid for itself in fiscal year 2014. Additional revenue was generated by providing professional development to the School Districts served by the Educational Service Center and providing speech and occupational therapy services to outside organizations. The Knox County Educational Service Center also continued charging an administration fee for all services provided to local districts. In fiscal year 2014, this fee was increased from three percent to four percent.

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.

Knox County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2014

Unaudited

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 Tina Gabler, Interim Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

Knox County Educational Service Center

Statement of Net Position

June 30, 2014

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$607,969
Accounts Receivable	4,410
Intergovernmental Receivable	301,699
Depreciable Capital Assets, Net	123,089
<i>Total Assets</i>	<u>1,037,167</u>
Liabilities	
Accounts Payable	8,327
Accrued Wages Payable	299,896
Intergovernmental Payable	102,856
Long-Term Liabilities:	
Due Within One Year	53,945
Due In More Than One Year	178,682
<i>Total Liabilities</i>	<u>643,706</u>
Net Position	
Net Investment in Capital Assets	123,089
Restricted for:	
Staff Development	37,772
Other Purposes	5,469
Unrestricted	227,131
<i>Total Net Position</i>	<u><u>\$393,461</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, 2014

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$139,386	\$0	\$0	(\$139,386)
Special	3,394,180	4,728,491	173,942	1,508,253
Support Services:				
Pupils	719,857	0	39,879	(679,978)
Instructional Staff	399,022	0	176,310	(222,712)
Board of Education	21,356	0	0	(21,356)
Administration	743,616	0	0	(743,616)
Fiscal	116,716	0	0	(116,716)
Operation and Maintenance of Plant	26,271	0	0	(26,271)
Central	3,390	0	0	(3,390)
Extracurricular Activities	3,954	5,547	0	1,593
<i>Totals</i>	<u>\$5,567,748</u>	<u>\$4,734,038</u>	<u>\$390,131</u>	<u>(443,579)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				
				436,487
Investment Earnings				
				129
Miscellaneous				
				<u>33,567</u>
<i>Total General Revenues</i>				
				<u>470,183</u>
Change in Net Position				
				26,604
<i>Net Position Beginning of Year</i>				
				<u>366,857</u>
<i>Net Position End of Year</i>				
				<u><u>\$393,461</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$539,290	\$57,368	\$596,658
Accounts Receivable	4,410	0	4,410
Interfund Receivable	8,266	0	8,266
Intergovernmental Receivable	278,282	23,417	301,699
<i>Total Assets</i>	<u>\$830,248</u>	<u>\$80,785</u>	<u>\$911,033</u>
Liabilities			
Accounts Payable	\$7,920	\$407	\$8,327
Accrued Wages Payable	258,350	41,546	299,896
Interfund Payable	0	8,266	8,266
Intergovernmental Payable	95,079	7,777	102,856
<i>Total Liabilities</i>	<u>361,349</u>	<u>57,996</u>	<u>419,345</u>
Deferred Inflows of Resources			
Unavailable Revenue	0	1,879	1,879
Fund Balances			
Restricted	0	43,241	43,241
Unassigned (Deficit)	468,899	(22,331)	446,568
<i>Total Fund Balances</i>	<u>468,899</u>	<u>20,910</u>	<u>489,809</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$830,248</u>	<u>\$80,785</u>	<u>\$911,033</u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2014

Total Governmental Funds Balances	\$489,809
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*Amounts reported for governmental activities in the
statement of net position are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	123,089
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Other long-term assets, such as intergovernmental revenues, are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds	1,879
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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 position.	11,311
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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>(232,627)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$393,461</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, 2014

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$467,874	\$319,299	\$787,173
Interest	115	0	115
Tuition and Fees	65,237	0	65,237
Extracurricular Activities	0	5,547	5,547
Contributions and Donations	1,225	36,341	37,566
Customer Services	4,839,301	0	4,839,301
Miscellaneous	33,567	0	33,567
<i>Total Revenues</i>	<u>5,407,319</u>	<u>361,187</u>	<u>5,768,506</u>
Expenditures			
Current:			
Instruction:			
Regular	129,735	7,760	137,495
Special	3,161,734	137,125	3,298,859
Support Services:			
Pupils	668,063	39,879	707,942
Instructional Staff	186,648	203,714	390,362
Board of Education	21,356	0	21,356
Administration	707,516	0	707,516
Fiscal	108,310	0	108,310
Operation and Maintenance of Plant	26,271	0	26,271
Central	3,390	0	3,390
Extracurricular Activities	0	3,954	3,954
<i>Total Expenditures</i>	<u>5,013,023</u>	<u>392,432</u>	<u>5,405,455</u>
<i>Net Change in Fund Balances</i>	394,296	(31,245)	363,051
<i>Fund Balances Beginning of Year</i>	<u>74,603</u>	<u>52,155</u>	<u>126,758</u>
<i>Fund Balances End of Year</i>	<u><u>\$468,899</u></u>	<u><u>\$20,910</u></u>	<u><u>\$489,809</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds \$363,051

*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 of depreciation expense in the current period. (24,049)

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

Customer Services	(176,047)	
Intergovernmental	1,879	
Total		(174,168)

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. 5,737

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. (143,967)

Change in Net Position of Governmental Activities \$26,604

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fund Net Position

Internal Service Fund

June 30, 2014

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$11,311
Liabilities	
	<u>0</u>
Net Position	
Unrestricted	<u>\$11,311</u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2014*

	Insurance
Operating Revenues	
Charges for Services	\$22,704
Operating Expenses	
Purchased Services	4,800
Claims	12,181
<i>Total Operating Expenses</i>	16,981
<i>Operating Income (Loss)</i>	5,723
Non-Operating Revenues (Expenses)	
Interest	14
Change in Net Position	5,737
<i>Net Position Beginning of Year</i>	5,574
<i>Net Position at End of Year</i>	\$11,311

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, 2014

	<u>Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund	
Services Provided	\$22,704
Cash Payments for Goods and Services	(4,800)
Cash Payments for Claims	<u>(12,181)</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	5,723
Cash Flows from Investing Activities	
Interest on Investments	<u>14</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	5,737
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>5,574</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$11,311</u></u>
See accompanying notes to the basic financial statements	

Knox County Educational Service Center

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2014

	<u>Private Purpose Trust</u>	
	<u>Wolfe Estate</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,949	<u><u>\$87,030</u></u>
Liabilities		
Undistributed Monies	<u>0</u>	<u><u>\$87,030</u></u>
Net Position		
Held in Trust for Scholarships	<u><u>\$12,949</u></u>	

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	Wolfe Estate
Additions	
Interest	\$3
Deductions	0
<i>Change in Net Position</i>	3
<i>Net Position Beginning of Year</i>	12,946
<i>Net Position End of Year</i>	\$12,949

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, 2014*

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 161 full and part time non-certificated and 56 full and part time certificated teaching personnel, and 11 administrators who provide services to 9,400 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, departments, boards and agencies 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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Educational Service Center has no component units.

The Educational Service Center participates in two jointly governed organizations and one insurance purchasing. These organizations are presented in Notes 9 and 10 to the basic financial statements. These organizations are the Knox County Career Center, Tri-Rivers Educational Computer Association, and the Ohio School Boards Association Workers' Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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, 2014*

Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is the Educational Service Center's major governmental fund:

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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.

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 position, 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 accounts for self insurance dental and vision claims for Educational Service Center employees.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. 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 services 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

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

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 inflows of resources, 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 Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources includes unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected during the available period. For the Educational Service Center, unavailable revenue includes charges for services. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 2014, the Educational Service Center invested in STAR Ohio, an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share which is the price the investment could be sold for on June 30, 2014.

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 2014 amounted to \$115, of which \$26 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 position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Interfund Balances

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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.

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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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. These amounts are assigned by the Educational Service Center Board of Education. In the general fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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.

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 Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position 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 position is available.

Estimates

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

Note 3 - 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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 (STAR Ohio); 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, none of the Educational Service Center's bank balance of \$614,664 was exposed to custodial credit risk because it was all insured and collateralized.

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

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Investments

As of June 30, 2014, the Educational Service Center only had an investment in STAR Ohio, the State Treasurer's Investment Pool. This investment had a carrying and fair value of \$167,377 and an average maturity of 51.4 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 STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The 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.

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 Governmental Funds	Total
Restricted for			
Student Activities	\$0	\$4,469	\$4,469
Other Purposes	0	38,772	38,772
Total Restricted	0	43,241	43,241
Unassigned (Deficit)	468,899	(22,331)	446,568
Total Fund Balances	<u>\$468,899</u>	<u>\$20,910</u>	<u>\$489,809</u>

Note 5 - Receivables

Receivables at June 30, 2014, consisted of tuition, customer service, and intergovernmental grants. All receivables are considered collectible in full and will be received within one year. Intergovernmental receivables in governmental activities are due to customer services.

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 6 - State Funding

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. A reduction factor of 81.74 percent is then applied, 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 districts an amount equal to \$11.00 times the school district's total student count and remits this amount to the Educational Service Center.

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

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 7/1/2013	Additions	Deductions	Balance 6/30/2014
Governmental Activities				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	\$339,856	\$0	\$0	\$339,856
Less Accumulated Depreciation	<u>(192,718)</u>	<u>(24,049) *</u>	<u>0</u>	<u>(216,767)</u>
Governmental Activities Capital Assets, Net	<u>\$147,138</u>	<u>(\$24,049)</u>	<u>\$0</u>	<u>\$123,089</u>

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$482
Special	2,873
Support Services:	
Pupils	509
Instructional Staff	18,313
Administration	1,330
Fiscal	542
Total Depreciation Expense	<u>\$24,049</u>

Note 8 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2014 were as follows:

	Amount Outstanding 7/1/2013	Additions	Deletions	Amount Outstanding 6/30/2014	Amount Due in One Year
Governmental Activities					
Compensated Absences	\$88,660	\$161,699	\$17,732	\$232,627	\$53,945

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

Note 9 - Jointly Governed Organizations

Knox County Career Center The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center paid \$4,800 for services during fiscal year 2014. 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 \$17,626 for services during fiscal year 2014. Audited yearly financial statements are available at TRECA, 100 Executive Drive, Marion, Ohio, 43302.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Note 10 - Insurance Purchasing Pool

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.

Note 11 - 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 2014, 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 2014, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

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. As of July 1, 2012, the Educational Service Center was no longer self-insured for health insurance but is still self-insured for dental and vision. The self-insurance fund is being utilized for current dental and vision claims. As of June 30, 2014, there is no claims liability in the fund. Changes in the fund's claims liability amount in fiscal year 2013 and 2014 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2013	\$197,764	\$0	\$197,764	\$0
2014	0	12,181	12,181	0

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Note 12 - 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 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, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining .90 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, 2014, 2013, and 2012 were \$213,976, \$252,325, and \$232,471, respectively. For 2014, 93.26 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

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.

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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 11 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 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 \$206,990 and \$3,634 for the fiscal year ended June 30, 2014, \$272,384 and \$449 for the fiscal year ended June 30, 2013, and \$275,860 and \$0 for the fiscal year ended June 30, 2012. For fiscal year 2013, 88.08 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 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$20,468 made by the Educational Service Center and \$16,082 made by the plan members. Member contributions of \$2,855 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

Note 13 - 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 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 2014, 0.14 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 2014, this amount was \$20,250. During fiscal year 2014, the Educational Service Center paid \$32,668 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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$34,955, \$41,605, and \$46,687, respectively. For 2014, 93.26 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2014, 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, 2014, 2013, and 2012, were \$12,414, \$14,253, and \$13,729, respectively. For 2014, 93.26 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

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 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$15,922, \$20,918, and \$21,220, respectively. For 2014, 88.08 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Note 14 - Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180-day employees and 200 days for 260-day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

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

Dental and vision insurance is provided through OME-RESA (See Note 11). An indemnity plan is available through Nationwide Insurance Company with monthly premiums of \$149.81 for single, \$345.50 for employee plus spouse, \$255.79 for employee plus child, and \$371.31 for family coverage.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

Note 15 - 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, 2014.

Litigation

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

Note 16 – Interfund Balances

The balances for advances to/from other funds at June 30, 2014, consisted of the following individual fund receivables and payables.

	Interfund Receivable	Interfund Payable
General	\$8,266	\$0
Miscellaneous Federal Grants	0	8,266
Totals	<u>\$8,266</u>	<u>\$8,266</u>

The interfund receivable in the general fund is due to a cash advance to the miscellaneous federal grants fund to cover a cash deficit and a prior year advance. The money is expected to be paid within one year.

Note 17 – Significant Commitments

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were \$42 in other governmental funds.

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$498,258	
Interest			116	
Tuition and Fees			65,237	
Contributions and Donations			1,225	
Customer Services			4,572,948	
Miscellaneous			33,549	
<i>Total Revenues</i>			<u>5,171,333</u>	
Expenditures				
Current:				
Instruction:				
Regular	211,617	211,617	123,853	87,764
Special	3,404,296	3,404,296	3,125,752	278,544
Support Services:				
Pupils	706,348	706,348	669,666	36,682
Instructional Staff	223,476	223,476	202,706	20,770
Board of Education	29,590	29,590	23,797	5,793
Administration	753,531	753,531	700,743	52,788
Fiscal	115,828	115,828	107,254	8,574
Operation and Maintenance of Plant	27,710	27,710	26,299	1,411
Central	6,900	6,900	3,525	3,375
<i>Total Expenditures</i>	<u>5,479,296</u>	<u>5,479,296</u>	<u>4,983,595</u>	<u>495,701</u>
<i>Net Change in Fund Balance</i>	(5,479,296)	(5,479,296)	187,738	
<i>Fund Balance Beginning of Year</i>			322,542	
Prior Year Encumbrances Appropriated			<u>33,525</u>	
<i>Fund Balance End of Year</i>			<u>\$543,805</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, 2014*

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. 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. 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, 2014*

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

Net Change in Fund Balance
General Fund

	<u>General</u>
GAAP Basis	\$394,296
Net Adjustment for Revenue Accruals	(235,990)
Unrecorded Interest	4
Net Adjustment for Expenditure Accruals	<u>29,428</u>
Budget Basis	<u><u>\$187,738</u></u>

Knox County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2014*

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Dave Yost • Auditor of State

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

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

To the Service Center Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 14, 2015.

Internal Control Over Financial Reporting

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

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

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

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275

www.ohioauditor.gov

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 14, 2015



Dave Yost • Auditor of State

KNOX COUNTY EDUCATIONAL SERVICE CENTER

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 9, 2015**