



OHIO AUDITOR OF STATE  
**KEITH FABER**





**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY  
JUNE 30, 2020 and 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***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 the Knox County Educational Service Center, Knox County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2020 and June 30, 2019, and the related notes to the financial statements, which collectively comprise the Educational Service 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 Educational Service 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 Educational Service Center's internal control. Accordingly, we express no such 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 the Educational Service Center, as of June 30, 2020 and June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 20 to the fiscal year 2020 financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

Our audit was conducted to opine on the Educational Service 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 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 information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2021, on our consideration of the Educational Service 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 Educational Service Center's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 3, 2021

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## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
Unaudited*

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The discussion and analysis of Knox County Educational Service Center's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2020. 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 fiscal year 2020 are as follows:

- The Educational Service Center still offers the Minimum Essential Coverage (MEC) plan through FreedomCare at 100 percent Board cost to any employee working 130 hours or more each month. The ESC continued to offer voluntary, supplemental plans through American Fidelity which began in fiscal year 2019. These plans include flexible spending accounts, disability, life insurance and accident insurance.
- Employees received step increases with their 2019-2020 contracts.

### **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 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 nonmajor funds presented in total in one column. In the case of the 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 fiscal year 2020?" 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.

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.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
Unaudited*

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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 10. 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.

### **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 fiscal year 2020 compared to 2019.

**Knox County Educational Service Center***Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2020**Unaudited***Table 1  
Net Position  
Governmental Activities**

	2020	2019	Change
<b>Assets</b>			
Current and Other Assets	\$1,570,454	\$1,294,288	\$276,166
Capital Assets, Net	38,659	56,875	(18,216)
Net OPEB Asset	305,321	293,991	11,330
<i>Total Assets</i>	<u>1,914,434</u>	<u>1,645,154</u>	<u>269,280</u>
<b>Deferred Outflows of Resources</b>			
Pension	1,469,325	2,248,858	(779,533)
OPEB	378,957	275,692	103,265
<i>Total Deferred Outflows of Resources</i>	<u>1,848,282</u>	<u>2,524,550</u>	<u>(676,268)</u>
<b>Liabilities</b>			
Current Liabilities	412,649	470,814	58,165
Long-Term Liabilities:			
Due Within One Year	22,892	26,146	3,254
Due in More Than One Year:			
Net Pension Liability	8,403,567	8,277,664	(125,903)
Net OPEB Liability	1,853,443	2,071,559	218,116
Other Amounts	149,752	156,941	7,189
<i>Total Liabilities</i>	<u>10,842,303</u>	<u>11,003,124</u>	<u>160,821</u>
<b>Deferred Inflows of Resources</b>			
Pension	567,436	813,368	245,932
OPEB	945,199	698,410	(246,789)
<i>Total Deferred Inflows of Resources</i>	<u>1,512,635</u>	<u>1,511,778</u>	<u>(857)</u>
<b>Net Position</b>			
Investment in Capital Assets	38,659	56,875	(18,216)
Restricted for:			
Student Activities	9,263	10,024	(761)
Staff Development	90,268	73,018	17,250
Daycare	0	3,559	(3,559)
Alternative Schools	1,461	1,461	0
Other Purposes	3,410	1,281	2,129
Unrestricted (Deficit)	<u>(8,735,283)</u>	<u>(8,491,416)</u>	<u>(243,867)</u>
<i>Total Net Position</i>	<u>(\$8,592,222)</u>	<u>(\$8,345,198)</u>	<u>(\$247,024)</u>

## Knox County Educational Service Center

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
Unaudited*

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2020. GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange; however, the Educational Service Center is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

In order to further understand what makes up the changes in net position for the current year, Table 2 gives readers further details regarding the results of activities for 2020 and 2019.

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

	2020	2019	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$6,093,308	\$5,647,525	\$445,783
Operating Grants and Contributions	260,179	244,119	16,060
Total Program Revenues	6,353,487	5,891,644	461,843
General Revenues:			
Grants and Entitlements	236,984	237,816	(832)
Investment Earnings	3,067	3,901	(834)
Miscellaneous	62,145	35,090	27,055
Total General Revenues	302,196	276,807	25,389
Total Revenues	\$6,655,683	\$6,168,451	\$487,232

(continued)

**Knox County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2020*

*Unaudited*

**Table 2**  
**Changes in Net Position**  
**Governmental Activities (continued)**

	2020	2019	Change
<b>Program Expenses</b>			
Instruction:			
Regular	\$88,926	\$84,543	(\$4,383)
Special	4,762,005	3,877,255	(884,750)
Support Services:			
Pupils	854,945	523,961	(330,984)
Instructional Staff	158,289	157,669	(620)
Board of Education	16,140	14,820	(1,320)
Administration	860,017	697,464	(162,553)
Fiscal	129,153	185,046	55,893
Operation and Maintenance of Plant	24,618	24,772	154
Central	4,754	11,320	6,566
Extracurricular Activities	3,860	5,719	1,859
<b>Total Program Expenses</b>	<b>6,902,707</b>	<b>5,582,569</b>	<b>(1,320,138)</b>
 Change in Net Position	 (247,024)	 585,882	 (832,906)
 <i>Net Position Beginning of Year</i>	 (8,345,198)	 (8,931,080)	 585,882
 <i>Net Position End of Year</i>	 <u>(\$8,592,222)</u>	 <u>(\$8,345,198)</u>	 <u>(\$247,024)</u>

***Governmental Activities***

A review of Table 2 shows the Educational Service Center net position decreased from fiscal year 2019. Revenues increased in regards to program revenues and miscellaneous revenue while expenses increased significantly from the prior fiscal year due to the changes in assumptions and benefit terms related to the pension and OPEB plans. As a result of these changes, pension expense increased from \$815,145 in fiscal year 2019 to \$1,338,587 in fiscal year 2020. OPEB expense increased from (\$529,612) in fiscal year 2019 to (\$33,392) in fiscal year 2020.

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.

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
Unaudited*

**Table 3  
Governmental Activities**

	Total Cost of Services 2020	Net Cost of Services 2020	Total Cost of Services 2019	Net Cost of Services 2019
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$88,926	(\$87,564)	\$84,543	(\$84,543)
Special	4,762,005	1,532,889	3,877,255	1,981,689
Support Services:				
Pupils	854,945	(854,945)	523,961	(523,961)
Instructional Staff	158,289	(120,309)	157,669	(130,304)
Board of Education	16,140	(16,140)	14,820	(14,820)
Administration	860,017	(843,865)	697,464	(697,464)
Fiscal	129,153	(129,153)	185,046	(185,046)
Operation and Maintenance of Plant	24,618	(24,618)	24,772	(24,772)
Central	4,754	(4,754)	11,320	(11,320)
Extracurricular Activities	3,860	(761)	5,719	(384)
Total	<u>\$6,902,707</u>	<u>(\$549,220)</u>	<u>\$5,582,569</u>	<u>\$309,075</u>

**The Educational Service Center's Funds**

Information regarding the Educational Service Center's governmental funds can be found on pages 16 through 19. These funds are accounted for using the modified accrual basis of accounting. Total governmental funds had an increase in fund balance for fiscal year 2020, with increases in both revenues and expenditures. The general fund is the most significant and had the largest change in fund balance. The general fund had an increase in revenues for fiscal year 2020, primarily customer services, and an increase in expenditures, mainly special instruction and pupil support services.

**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 were higher than the original estimate. Actual expenditures were less than the final estimate due to conservative spending.

The general fund had an increase in revenues for fiscal year 2020, primarily customer services, as well as an increase in expenditures, mainly special instruction and pupil support services.



## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
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Unaudited*

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### **Capital Assets**

All capital assets are reported net of depreciation. There was a decrease in capital assets during the fiscal year due to current year depreciation. More detailed information is presented in Note 8 to the basic financial statements.

### **Debt**

At June 30, 2020, the Educational Service Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences, net pension liabilities, and net OPEB liabilities. For additional information on long-term liabilities, see Note 9 to the basic financial statements.

### **Current Related Financial Activities**

In prior fiscal years, the 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 previously provided through a self-insured program. One of the medical coverage plans provided to employees in fiscal year 2015 was an indemnity plan that provided limited reimbursement for medical expenses. This plan had a much lower cost to the Educational Service Center, as compared to the self-insured program, but provided much less coverage to employees. In June 2017, the Educational Service Center had to terminate the indemnity plan due to low participation. The plan required a minimum number of employees be enrolled in the plan at any time and the Educational Service Center had not met that requirement in any of fiscal year 2016. The Educational Service Center offers a MEC plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for. The cost of this plan remains much less than what the self-insured plan was in the past. The Educational Service Center now also offers voluntary, supplemental coverage through American Fidelity as a benefit to employees as well. These plans include Flexible Spending Accounts, Disability, Accident and Life Insurance and are 100 percent employee paid.

The 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 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 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 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 Educational Service Center looks 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

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
Unaudited*

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several areas that provide services and opportunities for students in the school districts served by the Educational Service Center. 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 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 and it has remained at that level through fiscal year 2020.

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 Educational Service Center is committed to providing the best service possible and to be fiscally responsible in its operation. The challenge that faces the Educational Service Center operation is not in providing quality services, but the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

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

### **Contacting the Educational Service Center'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 Judy Forney, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

## **Basic Financial Statements**

# Knox County Educational Service Center

## Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,383,443
Accounts Receivable	1,870
Intergovernmental Receivable	185,141
Depreciable Capital Assets, Net	38,659
Net OPEB Asset (See Note 14)	<u>305,321</u>
<i>Total Assets</i>	<u>1,914,434</u>
<b>Deferred Outflows of Resources</b>	
Pension	1,469,325
OPEB	<u>378,957</u>
<i>Total Deferred Outflows of Resources</i>	<u>1,848,282</u>
<b>Liabilities</b>	
Accounts Payable	9,295
Accrued Wages Payable	291,012
Intergovernmental Payable	103,192
Matured Compensated Absences Payable	9,150
Long-Term Liabilities:	
Due Within One Year	22,892
Due In More Than One Year:	
Net Pension Liability (See Note 13)	8,403,567
Net OPEB Liability (See Note 14)	1,853,443
Other Amounts	<u>149,752</u>
<i>Total Liabilities</i>	<u>10,842,303</u>
<b>Deferred Inflows of Resources</b>	
Pension	567,436
OPEB	<u>945,199</u>
<i>Total Deferred Inflows of Resources</i>	<u>1,512,635</u>
<b>Net Position</b>	
Investment in Capital Assets	38,659
Restricted for:	
Student Activities	9,263
Staff Development	90,268
Alternative Schools	1,461
Other Purposes	3,410
Unrestricted (Deficit)	<u>(8,735,283)</u>
<i>Total Net Position</i>	<u><u>(\$8,592,222)</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, 2020*

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$88,926	\$0	\$1,362	(\$87,564)
Special	4,762,005	6,090,209	204,685	1,532,889
Support Services:				
Pupils	854,945	0	0	(854,945)
Instructional Staff	158,289	0	37,980	(120,309)
Board of Education	16,140	0	0	(16,140)
Administration	860,017	0	16,152	(843,865)
Fiscal	129,153	0	0	(129,153)
Operation and Maintenance of Plant	24,618	0	0	(24,618)
Central	4,754	0	0	(4,754)
Extracurricular Activities	3,860	3,099	0	(761)
<i>Totals</i>	\$6,902,707	\$6,093,308	\$260,179	(549,220)

**General Revenues**

Grants and Entitlements not Restricted to Specific Programs	236,984
Investment Earnings	3,067
Miscellaneous	62,145
<i>Total General Revenues</i>	302,196
Change in Net Position	(247,024)
<i>Net Position Beginning of Year</i>	(8,345,198)
<i>Net Position End of Year</i>	(\$8,592,222)

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Balance Sheet  
Governmental Funds  
June 30, 2020*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,258,096	\$113,945	\$1,372,041
Accounts Receivable	257	0	257
Interfund Receivable	23,758	0	23,758
Intergovernmental Receivable	162,044	23,097	185,141
<i>Total Assets</i>	<u>\$1,444,155</u>	<u>\$137,042</u>	<u>\$1,581,197</u>
<b>Liabilities</b>			
Accounts Payable	\$9,295	\$0	\$9,295
Accrued Wages Payable	261,475	29,537	291,012
Interfund Payable	0	23,758	23,758
Intergovernmental Payable	98,155	5,037	103,192
Matured Compensated Absences Payable	9,150	0	9,150
<i>Total Liabilities</i>	<u>378,075</u>	<u>58,332</u>	<u>436,407</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	0	12,013	12,013
<b>Fund Balances</b>			
Restricted	0	103,317	103,317
Assigned	90,606	0	90,606
Unassigned (Deficit)	975,474	(36,620)	938,854
<i>Total Fund Balances</i>	<u>1,066,080</u>	<u>66,697</u>	<u>1,132,777</u>
<i>Total Liabilities, Deferred Inflows and Fund Balances</i>	<u>\$1,444,155</u>	<u>\$137,042</u>	<u>\$1,581,197</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, 2020*

<b>Total Governmental Funds Balances</b>	<b>\$1,132,777</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	38,659
Other long-term assets, such as intergovernmental receivables, are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds.	12,013
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.	13,015
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(172,644)
The net OPEB asset and the net pension and net OPEB liabilities are not due and payable in the current period; therefore, the asset, liabilities and related deferred inflows/outflows are not reported in governmental funds:	
Net OPEB Asset	305,321
Deferred Outflows - Pension	1,469,325
Deferred Outflows - OPEB	378,957
Net Pension Liability	(8,403,567)
Net OPEB Liability	(1,853,443)
Deferred Inflows - Pension	(567,436)
Deferred Inflows - OPEB	(945,199)
Total	(9,616,042)
 <i>Net Position of Governmental Activities</i>	 <b><u><u>(\$8,592,222)</u></u></b>

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, 2020*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$255,178	\$189,712	\$444,890
Interest	3,067	0	3,067
Tuition and Fees	248,282	0	248,282
Extracurricular Activities	0	3,099	3,099
Contributions and Donations	0	40,260	40,260
Customer Services	5,841,927	0	5,841,927
Miscellaneous	62,145	0	62,145
<i>Total Revenues</i>	<u>6,410,599</u>	<u>233,071</u>	<u>6,643,670</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	84,200	1,263	85,463
Special	4,133,382	194,623	4,328,005
Support Services:			
Pupils	810,202	0	810,202
Instructional Staff	116,920	34,570	151,490
Board of Education	16,140	0	16,140
Administration	782,612	1,839	784,451
Fiscal	128,890	0	128,890
Operation and Maintenance of Plant	22,357	0	22,357
Central	4,754	0	4,754
Extracurricular Activities	0	3,860	3,860
<i>Total Expenditures</i>	<u>6,099,457</u>	<u>236,155</u>	<u>6,335,612</u>
<i>Net Change in Fund Balances</i>	311,142	(3,084)	308,058
<i>Fund Balances Beginning of Year</i>	<u>754,938</u>	<u>69,781</u>	<u>824,719</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,066,080</u></u>	<u><u>\$66,697</u></u>	<u><u>\$1,132,777</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, 2020*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$308,058</b>
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	(18,216)
Intergovernmental revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,013
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.	10,443
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.	14,260
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:	
Pension	679,083
OPEB	52,530
Total	731,613
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities are reported as pension/OPEB expense in the statement of activities:	
Pension	(1,338,587)
OPEB	33,392
Total	(1,305,195)
<i>Change in Net Position of Governmental Activities</i>	<b>(\$247,024)</b>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fund Net Position*

*Internal Service Fund*

*June 30, 2020*

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	<u>Insurance</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,402
Accounts Receivable	<u>1,613</u>
<i>Total Assets</i>	13,015
<b>Liabilities</b>	<u>0</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$13,015</u></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, 2020*

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	<u>Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$21,188</u>
<b>Operating Expenses</b>	
Purchased Services	1,975
Claims	<u>4,953</u>
<i>Total Operating Expenses</i>	<u>6,928</u>
Change in Net Position	14,260
<i>Net Position Beginning of Year</i>	<u>(1,245)</u>
<i>Net Position at End of Year</i>	<u><u>\$13,015</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2020*

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	<u>Insurance</u>
<b>Decrease in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$18,330
Cash Payments for Goods and Services	(1,975)
Cash Payments for Claims	<u>(4,953)</u>
<i>Increase in Cash and Cash Equivalents</i>	11,402
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$11,402</u></u>

**Reconciliation of Operating Income to  
Net Cash Provided by Operating Activities**

Operating Income	\$14,260
Adjustments:	
Increase in Accounts Receivable	(1,613)
Decrease in Interfund Payable	<u>(1,245)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$11,402</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2020*

	Private Purpose Trust	
	Wolfe Estate	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$13,751	\$87,024
<b>Liabilities</b>		
Undistributed Monies	0	\$87,024
<b>Net Position</b>		
Held in Trust for Scholarships	\$13,751	

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, 2020*

	Wolfe Estate
<b>Additions</b>	
Interest	\$206
<b>Deductions</b>	0
<i>Change in Net Position</i>	206
<i>Net Position Beginning of Year</i>	13,545
<i>Net Position End of Year</i>	\$13,751

See accompanying notes to the basic financial statements

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and Federal agencies. The Board controls the Educational Service Center's support facilities staffed by 333 full and part time non-certificated and 89 full and part time certificated teaching personnel, and 7 administrators who provide services to 9,111 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 pool. These organizations are presented in Notes 10 and 11 to the basic financial statements. These organizations are the Knox County Career Center, META Solutions, 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 as follows.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### ***Basis of Presentation***

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net 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, 2020*

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**General Fund** The general fund is the operating fund of the Educational Service Center and is used to account and report for all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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, all proprietary and fiduciary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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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 and the statements presented for proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/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 represent 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. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 13 and 14.

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 until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue, pension and OPEB plans. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (see Notes 13 and 14).

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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

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

### ***Cash and Cash Equivalents***

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2020, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates; however, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$100 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2020 amounted to \$3,067, of which \$273 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 acquisition 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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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.

***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.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund or funds from which the employees who have accumulated leave 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 and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, 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. Net pension/OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plans’ fiduciary net position are not sufficient for payment of those benefits.

***Pensions/Other Postemployment Benefits (OPEB)***

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

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### ***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.

***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 policies of the Educational Service Center Board of Education or an Educational Service Center official delegated that authority by resolution 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.

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.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

### ***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 – Changes in Accounting Principles**

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Educational Service Center evaluated implementing these certain GASB pronouncements based on the guidance in GASB 95.

For fiscal year 2020, the Educational Service Center implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2018-1*. These changes were incorporated in the Educational Service Center's 2020 financial statements; however, there was no effect on beginning net position/fund balance.

### **Note 4 – Deposits and Investments**

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

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

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met. The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five percent of interim moneys available for investment at the time of purchase.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

### **Investments**

As of June 30, 2020, the Educational Service Center's only investment was in STAR Ohio, which is measured at net asset value per share.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**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** 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.

**Note 5 – 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

Fund Balances	General	Other Governmental Funds	Total
<i>Restricted for:</i>			
Student Activities	\$0	\$9,263	\$9,263
Staff Development	0	90,268	90,268
Alternative Schools	0	1,461	1,461
Miscellaneous State Grants	0	1,044	1,044
Miscellaneous Federal Grants	0	1,281	1,281
<i>Total Restricted</i>	0	103,317	103,317
<i>Assigned to:</i>			
Purchases on Order	90,606	0	90,606
<i>Unassigned (Deficit)</i>	975,474	(36,620)	938,854
<i>Total Fund Balances</i>	<u>\$1,066,080</u>	<u>\$66,697</u>	<u>\$1,132,777</u>

**Note 6 – Receivables**

Receivables at June 30, 2020, consisted of outside accounts and intergovernmental charges for services and 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.

**Note 7 – State Funding**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs



**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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 \$26 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center’s territory and all of the Educational Service Center’s client schools districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center’s local and client school 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 8 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	<u>Balance</u> <u>7/1/2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2020</u>
<b>Governmental Activities</b>				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	\$381,003	\$0	\$0	\$381,003
Less Accumulated Depreciation	<u>(324,128)</u>	<u>(18,216) *</u>	<u>0</u>	<u>(342,344)</u>
Governmental Activities Capital Assets, Net	<u>\$56,875</u>	<u>(\$18,216)</u>	<u>\$0</u>	<u>\$38,659</u>

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

Instruction:	
Regular	\$3,463
Special	7,426
Support Services:	
Pupils	312
Instructional Staff	2,992
Administration	3,937
Fiscal	<u>86</u>
Total Depreciation Expense	<u>\$18,216</u>

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 9 – Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center during fiscal year 2020 were as follows:

	Amount Outstanding 7/1/2019	Additions	Deletions	Amount Outstanding 6/30/2020	Amount Due in One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$183,087	\$15,703	\$26,146	\$172,644	\$22,892
Net Pension Liability:					
STRS	4,022,783	53,914	0	4,076,697	0
SERS	4,254,881	71,989	0	4,326,870	0
Total Net Pension Liability	8,277,664	125,903	0	8,403,567	0
Net OPEB Liability:					
SERS	2,071,559	0	218,116	1,853,443	0
Total Long-Term Liabilities	\$10,532,310	\$141,606	\$244,262	\$10,429,654	\$22,892

Compensated absences will be paid from the general fund and public school preschool and IDEA preschool special revenue funds. There is no repayment schedule for the net pension liability and the net OPEB liability; however, employer pension and OPEB contributions are made from the following funds: general fund and public school preschool and IDEA preschool special revenue funds. For additional information related to net pension liability and net OPEB liability, see Notes 13 and 14.

**Note 10 – Jointly Governed Organizations**

***Knox County Career Center*** The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center paid \$4,800 for services during fiscal year 2020. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

***META Solutions*** META Solutions is jointly governed organization among 128 member districts. META Solutions 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 META Solutions based upon a per pupil charge dependent upon the software package utilized. META Solutions 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 Educational Service Center paid \$20,678 for services during fiscal year 2020. Audited yearly financial statements are available at META Solutions, 100 Executive Drive, Marion, Ohio, 43302.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 11 – 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 Ohio School Boards Association (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 12 – Risk Management**

**Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2020, 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 four years. There have been no significant reductions in insurance coverage from last year.

**Workers' Compensation**

For fiscal year 2020, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Sheakley 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, 2020, there is no claims liability in the fund. Changes in the fund's claims liability amount in fiscal year 2019 and 2020 were:

<u>Fiscal Year</u>	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance End of Year</u>
2019	\$0	\$19,654	\$19,654	\$0
2020	0	4,953	4,953	0

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### Note 13 – Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

#### *Net Pension Liability/Net OPEB Liability (Asset)*

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

The net pension/OPEB liabilities (asset) represent the Educational Service Center's proportionate share of each pension/OPEB plans' collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plans' fiduciary net position. The net pension/OPEB liabilities (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

The Ohio Revised Code limits the Educational Service Center's obligation for these liabilities to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the Educational Service Center does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 both assume the liabilities are solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liabilities (asset). Resulting adjustments to the net pension/OPEB liabilities (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net OPEB asset* or long-term *net pension/OPEB liabilities* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### ***Plan Description – State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five year of service credit and age 65, or 35 years of service credit and at least age 60.

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate is deposited into the member's DC account and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty and after termination of employment.

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

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2020 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2020, the full employer contribution was allocated to pension.

The Educational Service Center’s contractually required contribution to STRS was \$294,160 for fiscal year 2020. Of this amount, \$27,657 is reported as an intergovernmental payable.

***Plan Description – School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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 advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$384,923 for fiscal year 2020. Of this amount, \$13,084 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Prior Measurement Date	0.01829556%	0.07429270%	
Current Measurement Date	<u>0.01843458%</u>	<u>0.07231730%</u>	
Change in Proportionate Share	<u>0.00013902%</u>	<u>-0.00197540%</u>	
Proportionate Share of the Net Pension Liability	\$4,076,697	\$4,326,870	\$8,403,567
Pension Expense	\$557,330	\$781,257	\$1,338,587

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$33,191	\$109,720	\$142,911
Changes of assumptions	478,887	0	478,887
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	96,539	71,905	168,444
Educational Service Center contributions subsequent to the measurement date	<u>294,160</u>	<u>384,923</u>	<u>679,083</u>
Total Deferred Outflows of Resources	<u><u>\$902,777</u></u>	<u><u>\$566,548</u></u>	<u><u>\$1,469,325</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$17,647	\$0	\$17,647
Net difference between projected and actual earnings on pension plan investments	199,247	55,541	254,788
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	<u>205,022</u>	<u>89,979</u>	<u>295,001</u>
Total Deferred Inflows of Resources	<u><u>\$421,916</u></u>	<u><u>\$145,520</u></u>	<u><u>\$567,436</u></u>

\$679,083 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
2021	\$124,230	\$125,756	\$249,986
2022	32,719	(117,453)	(84,734)
2023	2,843	(3,696)	(853)
2024	<u>26,909</u>	<u>31,498</u>	<u>58,407</u>
Total	<u><u>\$186,701</u></u>	<u><u>\$36,105</u></u>	<u><u>\$222,806</u></u>



**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented as follows:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation *	Long-Term Expected Rate of Return **
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\* Target weights will be phased in over a 24-month period concluding on July1, 2019.

\*\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019; therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$5,957,638	\$4,076,697	\$2,484,383

**Actuarial Assumptions – SERS**

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

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

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

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented as follows:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

***Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$6,063,493	\$4,326,870	\$2,870,496

**Note 14 – Defined Benefit OPEB Plans**

See Note 13 for a description of the net OPEB liability (asset).

***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

***Plan Description – School Employees Retirement System (SERS)***

Health Care Plan Description – The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2020, the Educational Service Center's surcharge obligation was \$52,530.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$52,530 for fiscal year 2020, which is reported as an intergovernmental payable.

***OPEB Liabilities (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB liability (asset) was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	STRS	SERS	Total
Proportion of the Net OPEB Liability (Asset):			
Prior Measurement Date	0.01829556%	0.07467041%	
Current Measurement Date	0.01843458%	0.07370170%	
Change in Proportionate Share	0.00013902%	-0.00096871%	
Proportionate Share of the:			
Net OPEB Liability	\$0	\$1,853,443	\$1,853,443
Net OPEB (Asset)	(\$305,321)	\$0	(\$305,321)
OPEB Expense	(\$95,129)	\$61,737	(\$33,392)

**Knox County Educational Service Center**

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*For the Fiscal Year Ended June 30, 2020*

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$27,679	\$27,207	\$54,886
Changes of assumptions	6,418	135,373	141,791
Net difference between projected and actual earnings on OPEB plan investments	0	4,449	4,449
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	23,845	101,456	125,301
Educational Service Center contributions subsequent to the measurement date	0	52,530	52,530
Total Deferred Outflows of Resources	<u>\$57,942</u>	<u>\$321,015</u>	<u>\$378,957</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$15,534	\$407,189	\$422,723
Changes of assumptions	334,749	103,861	438,610
Net difference between projected and actual earnings on OPEB plan investments	19,176	0	19,176
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	24,026	40,664	64,690
Total Deferred Inflows of Resources	<u>\$393,485</u>	<u>\$551,714</u>	<u>\$945,199</u>

\$52,530 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
2021	(\$74,535)	(\$100,684)	(\$175,219)
2022	(74,535)	(36,971)	(111,506)
2023	(66,850)	(35,665)	(102,515)
2024	(64,155)	(35,878)	(100,033)
2025	(56,482)	(47,716)	(104,198)
Thereafter	1,014	(26,315)	(25,301)
Total	<u>(\$335,543)</u>	<u>(\$283,229)</u>	<u>(\$618,772)</u>

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019, actuarial valuation are presented as follows:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends:	
Medical:	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug:	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan (see Note 13).

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019; therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2019.

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*Notes to the Basic Financial Statements  
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***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$260,531)	(\$305,321)	(\$342,979)

  

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$346,220)	(\$305,321)	(\$255,230)

***Actuarial Assumptions – SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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



## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented as follows:

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption:	
Pre-Medicare	7.00 to 4.75 percent
Medicare	5.25 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan (see Note 13).

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025; therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
Educational Service Center's proportionate share of the net OPEB liability	\$2,249,728	\$1,853,443	\$1,538,350
	1% Decrease (6.00 % decreasing to 3.75%)	Current Trend Rate (7.00 % decreasing to 4.75%)	1% Increase (8.00 % decreasing to 5.75%)
Educational Service Center's proportionate share of the net OPEB liability	\$1,484,983	\$1,853,443	\$2,342,299

**Note 15 – Other Employee Benefits**

The criteria for determining vacation and sick leave benefits are derived from State laws. Administrators that work 12 months earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Employees working less than 12 months per year 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 12). The Educational Service Center also offers a Minimum Essential Coverage (MEC) plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Note 16 – Contingencies**

***Grants***

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2020.

***Foundation Funding***

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2020 are finalized. As a result, there was no impact on the Educational Service Center's financial statements.

***Litigation***

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

**Note 17 – Interfund Balances**

The interfund receivable of \$23,758 in general fund represents advances to other governmental funds to offset deficit cash at June 30, 2020.

**Note 18 – Encumbrances**

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 \$104,867 in the general fund.

**Note 19 – Accountability**

At June 30, 2020, the Educational Service Center had deficit fund balances of \$14,027 and \$22,593 in the daycare and IDEA preschool special revenue funds, respectively. The special revenue funds' deficits resulted from adjustments for accrued liabilities and from interfund payables. The general fund provided money to operate the programs until grants and other monies are received and the advances can be repaid. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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**Note 20 – COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Educational Service Center. The Educational Service Center's investment portfolio and the investments of the pension and other employee benefit plans in which the Educational Service Center participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center's future operating costs, revenues, and any recovery from emergency funding, either Federal or State, cannot be estimated.

**Required Supplementary Information**

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Seven Fiscal Years (1)*

	2020	2019
Educational Service Center's Proportion of the Net Pension Liability	0.01843458%	0.01829556%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,076,697	\$4,022,783
Educational Service Center's Covered Payroll	\$2,150,064	\$2,122,021
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	189.61%	189.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.40%	77.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014
0.01751956%	0.01830573%	0.02024564%	0.01846323%	0.01846323%
\$4,161,809	\$6,127,480	\$5,595,302	\$4,490,897	\$5,349,527
\$1,923,643	\$1,901,429	\$2,176,450	\$1,929,836	\$2,095,262
216.35%	322.26%	257.08%	232.71%	255.32%
75.30%	66.80%	72.10%	74.70%	69.30%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Seven Fiscal Years (1)*

	2020	2019
Educational Service Center's Proportion of the Net Pension Liability	0.07231730%	0.07429270%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,326,870	\$4,254,881
Educational Service Center's Covered Payroll	\$2,471,467	\$2,400,696
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.07%	177.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.85%	71.36%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information



2018	2017	2016	2015	2014
0.06799510%	0.06998150%	0.06507680%	0.06822300%	0.06822300%
\$4,062,557	\$5,122,000	\$3,713,346	\$3,452,728	\$4,057,003
\$2,285,914	\$2,158,079	\$1,962,614	\$2,005,885	\$1,926,145
177.72%	237.34%	189.20%	172.13%	210.63%
69.50%	62.98%	69.16%	71.70%	65.52%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)*  
*State Teachers Retirement System of Ohio*  
*Last Four Fiscal Years (1)*

	2020	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability (Asset)	0.01843458%	0.01829556%	0.01751956%	0.01830573%
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$305,321)	(\$293,991)	\$683,549	\$978,995
Educational Service Center's Covered Payroll	\$2,150,064	\$2,122,021	\$1,923,643	\$1,901,429
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-14.20%	-13.85%	35.53%	51.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	174.70%	176.00%	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Four Fiscal Years (1)*

	2020	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.07370170%	0.07467041%	0.06879890%	0.07060040%
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$1,853,443	\$2,071,559	\$1,846,381	\$2,012,373
Educational Service Center's Covered Payroll	\$2,471,467	\$2,400,696	\$2,285,914	\$2,158,079
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	74.99%	86.29%	80.77%	93.25%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	15.57%	13.57%	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2020	2019	2018	2017
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$294,160	\$301,009	\$297,083	\$269,310
Contributions in Relation to the Contractually Required Contribution	<u>(294,160)</u>	<u>(301,009)</u>	<u>(297,083)</u>	<u>(269,310)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$2,101,143	\$2,150,064	\$2,122,021	\$1,923,643
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability (Asset)</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

2016	2015	2014	2013	2012	2011
\$266,200	\$304,703	\$250,879	\$272,384	\$275,860	\$271,119
(266,200)	(304,703)	(250,879)	(272,384)	(275,860)	(271,119)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,901,429	\$2,176,450	\$1,929,836	\$2,095,262	\$2,122,000	\$2,085,531
14.00%	14.00%	13.00%	13.00%	13.00%	13.00%
\$0	\$0	\$19,298	\$20,953	\$21,220	\$20,855
0	0	(19,298)	(20,953)	(21,220)	(20,855)
\$0	\$0	\$0	\$0	\$0	\$0
0.00%	0.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2020	2019	2018	2017
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$384,923	\$333,648	\$324,094	\$320,028
Contributions in Relation to the Contractually Required Contribution	(384,923)	(333,648)	(324,094)	(320,028)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$2,749,450	\$2,471,467	\$2,400,696	\$2,285,914
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	\$52,530	\$55,424	\$49,236	\$36,570
Contributions in Relation to the Contractually Required Contribution	(52,530)	(55,424)	(49,236)	(36,570)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>1.91%</u>	<u>2.24%</u>	<u>2.05%</u>	<u>1.60%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.91%</u>	<u>15.74%</u>	<u>15.55%</u>	<u>15.60%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2016	2015	2014	2013	2012	2011
\$302,131	\$258,673	\$278,016	\$266,578	\$246,200	\$244,104
(302,131)	(258,673)	(278,016)	(266,578)	(246,200)	(244,104)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,158,079	\$1,962,614	\$2,005,885	\$1,926,145	\$1,830,480	\$1,941,956
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%
\$34,359	\$49,650	\$35,476	\$41,605	\$46,678	\$66,609
(34,359)	(49,650)	(35,476)	(41,605)	(46,678)	(66,609)
\$0	\$0	\$0	\$0	\$0	\$0
1.59%	2.53%	1.77%	2.16%	2.55%	3.43%
15.59%	15.71%	15.63%	16.00%	16.00%	16.00%

**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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***Net Pension Liability***

**Changes in Assumptions – STRS**

Beginning with fiscal year 2018, amounts reported incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented as follows:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Beginning with fiscal year 2018, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

**Changes in Assumptions – SERS**

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc COLA. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These assumptions compared with those used in fiscal year 2016 and prior are presented as follows:



**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

***Net OPEB Liability (Asset)***

**Changes in Assumptions – STRS**

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45.

**Changes in Benefit Terms – STRS OPEB**

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2020, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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**Changes in Assumptions – SERS**

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented as follows:

Municipal Bond Index Rate:	
Fiscal year 2020	3.13 percent
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Fiscal year 2020	3.22 percent
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

**Additional Supplementary Information**

**Additional Supplementary 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, 2020*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$255,178	
Interest			3,067	
Tuition and Fees			248,282	
Customer Services			5,874,829	
Miscellaneous			61,888	
<i>Total Revenues</i>			<u>6,443,244</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	149,514	152,255	86,955	65,300
Special	4,361,898	4,441,878	4,196,761	245,117
Support Services:				
Pupils	935,375	952,526	808,217	144,309
Instructional Staff	204,873	208,630	140,617	68,013
Board of Education	33,348	33,959	19,520	14,439
Administration	1,039,876	1,058,943	824,443	234,500
Fiscal	189,774	193,254	149,911	43,343
Operation and Maintenance of Plant	38,322	39,025	22,286	16,739
Central	13,782	14,035	8,715	5,320
<i>Total Expenditures</i>	<u>6,966,762</u>	<u>7,094,505</u>	<u>6,257,425</u>	<u>837,080</u>
<i>Net Change in Fund Balance</i>	(6,966,762)	(7,094,505)	185,819	
<i>Fund Balance Beginning of Year</i>			789,030	
Prior Year Encumbrances Appropriated			<u>202,138</u>	
<i>Fund Balance End of Year</i>			<u><u>\$1,176,987</u></u>	

See accompanying notes to the additional supplementary information

**Knox County Educational Service Center**  
*Notes to the Additional Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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**Note 1 – Budgetary Basis of Accounting**

***Budgetary Process***

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

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center’s Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board. 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 fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned (GAAP).

**Knox County Educational Service Center**  
*Notes to the Additional Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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

	<u>General</u>
GAAP Basis	\$311,142
Net Adjustment for Revenue Accruals	32,645
Net Adjustment for Expenditure Accruals	(53,101)
Encumbrances	<u>(104,867)</u>
Budget Basis	<u><u>\$185,819</u></u>

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited*

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The discussion and analysis of Knox County Educational Service Center's (Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2019. 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 fiscal year 2019 are as follows:

- The Educational Service Center still offers the Minimum Essential Coverage (MEC) plan through FreedomCare at 100 percent Board cost to any employee working 130 hours or more each month. The ESC now also offers voluntary, supplemental plans through American Fidelity effective July 1, 2018. These plans include Flexible Spending Accounts, Disability, Life Insurance and Accident Insurance.
- Employees received step increases with their 2018-2019 contracts.

### **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 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 nonmajor funds presented in total in one column. In the case of the 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 fiscal year 2019?" 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.

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.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited*

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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 78. 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.

### **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 fiscal year 2019 compared to 2018.



**Knox County Educational Service Center**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2019*

*Unaudited*

**Table 1  
Net Position  
Governmental Activities**

	2019	2018	Change
<b>Assets</b>			
Current and Other Assets	\$1,294,288	\$1,143,152	\$151,136
Capital Assets, Net	56,875	71,877	(15,002)
Net OPEB Asset	293,991	0	293,991
<i>Total Assets</i>	<u>1,645,154</u>	<u>1,215,029</u>	<u>430,125</u>
<b>Deferred Outflows of Resources</b>			
Pension	2,248,858	2,412,886	(164,028)
OPEB	275,692	88,695	186,997
<i>Total Deferred Outflows of Resources</i>	<u>2,524,550</u>	<u>2,501,581</u>	<u>22,969</u>
<b>Liabilities</b>			
Current Liabilities	470,814	495,924	25,110
Long-Term Liabilities:			
Due Within One Year	26,146	38,382	12,236
Due in More Than One Year:			
Net Pension Liability	8,277,664	8,224,366	(53,298)
Net OPEB Liability	2,071,559	2,529,930	458,371
Other Amounts	156,941	164,795	7,854
<i>Total Liabilities</i>	<u>11,003,124</u>	<u>11,453,397</u>	<u>450,273</u>
<b>Deferred Inflows of Resources</b>			
Pension	813,368	850,206	36,838
OPEB	698,410	344,087	(354,323)
<i>Total Deferred Inflows of Resources</i>	<u>1,511,778</u>	<u>1,194,293</u>	<u>(317,485)</u>
<b>Net Position</b>			
Investment in Capital Assets	56,875	71,877	(15,002)
Restricted for:			
Student Activities	10,024	10,408	(384)
Staff Development	73,018	67,621	5,397
Daycare	3,559	28,421	(24,862)
Alternative Schools	1,461	0	1,461
Other Purposes	1,281	0	1,281
Unrestricted (Deficit)	(8,491,416)	(9,109,407)	617,991
<i>Total Net Position</i>	<u><u>(\$8,345,198)</u></u>	<u><u>(\$8,931,080)</u></u>	<u><u>\$585,882</u></u>

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited*

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2019. GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange; however, the Educational Service Center is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

In order to further understand what makes up the changes in net position for the current year, Table 2 gives readers further details regarding the results of activities for 2019 and 2018.

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

	2019	2018	Change
<b>Revenues</b>			
Program Revenues:			
Charges for Services and Sales	\$5,647,525	\$5,397,883	\$249,642
Operating Grants and Contributions	244,119	242,593	1,526
Total Program Revenues	5,891,644	5,640,476	251,168
General Revenues:			
Grants and Entitlements	237,816	237,580	236
Investment Earnings	3,901	2,414	1,487
Miscellaneous	35,090	9,903	25,187
Total General Revenues	276,807	249,897	26,910
Total Revenues	\$6,168,451	\$5,890,373	\$278,078

(continued)

**Knox County Educational Service Center**

*Management's Discussion and Analysis  
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Unaudited*

**Table 2  
Changes in Net Position  
Governmental Activities (continued)**

	2019	2018	Change
<b>Program Expenses</b>			
Instruction:			
Regular	\$84,543	\$91,470	\$6,927
Special	3,877,255	2,218,156	(1,659,099)
Support Services:			
Pupils	523,961	198,240	(325,721)
Instructional Staff	157,669	181,626	23,957
Board of Education	14,820	16,973	2,153
Administration	697,464	398,802	(298,662)
Fiscal	185,046	95,630	(89,416)
Operation and Maintenance of Plant	24,772	21,356	(3,416)
Central	11,320	8,444	(2,876)
Extracurricular Activities	5,719	3,886	(1,833)
<b>Total Program Expenses</b>	<u>5,582,569</u>	<u>3,234,583</u>	<u>(2,347,986)</u>
 Change in Net Position	585,882	2,655,790	(2,069,908)
 <i>Net Position Beginning of Year</i>	<u>(8,931,080)</u>	<u>(11,586,870)</u>	<u>2,655,790</u>
 <i>Net Position End of Year</i>	<u><u>(\$8,345,198)</u></u>	<u><u>(\$8,931,080)</u></u>	<u><u>\$585,882</u></u>

***Governmental Activities***

A review of Table 2 shows the Educational Service Center net position increased from fiscal year 2018. Revenues increased in all revenue types while expenses increased significantly from the prior fiscal year due to the changes in assumptions and benefit terms related to the pensions in the prior fiscal year. The largest component of the increase in program expenses results from changes in assumptions and benefit terms related to pensions in the prior year. For the prior year, STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). As a result of these changes, pension expense decreased from \$1,008,487 in fiscal year 2017 to a negative pension expense of (\$1,814,980) for fiscal year 2018. For fiscal year 2019, pension expense increased to \$815,145, which is closer to the 2017 pension expense amount.

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.

## Knox County Educational Service Center

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

**Table 3**  
**Governmental Activities**

	Total Cost of Services 2019	Net Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2018
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$84,543	(\$84,543)	\$91,470	(\$91,470)
Special	3,877,255	1,981,689	2,218,156	3,391,114
Support Services:				
Pupils	523,961	(523,961)	198,240	(197,353)
Instructional Staff	157,669	(130,304)	181,626	(155,382)
Board of Education	14,820	(14,820)	16,973	(16,973)
Administration	697,464	(697,464)	398,802	(400,306)
Fiscal	185,046	(185,046)	95,630	(95,630)
Operation and Maintenance of Plant	24,772	(24,772)	21,356	(21,356)
Central	11,320	(11,320)	8,444	(8,444)
Extracurricular Activities	5,719	(384)	3,886	1,693
Total	<u>\$5,582,569</u>	<u>\$309,075</u>	<u>\$3,234,583</u>	<u>\$2,405,893</u>

### The Educational Service Center's Funds

Information regarding the Educational Service Center's governmental funds can be found on pages 84 through 87. These funds are accounted for using the modified accrual basis of accounting. Total governmental funds had an increase in fund balance for fiscal year 2019, with increases in both revenues and expenditures. The general fund is the most significant and had the largest change in fund balance. The general fund had an increase in revenues for fiscal year 2019, primarily customer services, and an increase in expenditures, mainly special instruction and fiscal support services.

### 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 were slightly higher than the original estimate. Actual expenditures were less than the final estimate due to conservative spending.

The general fund had an increase in revenues for fiscal year 2019, primarily customer services, as well as an increase in expenditures, mainly special instruction and fiscal support services.

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited*

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### **Capital Assets**

All capital assets are reported net of depreciation. There was a decrease in capital assets during the fiscal year due to asset deletions and current year depreciation. Additions of \$7,010 in capital assets were made during fiscal year 2019. More detailed information is presented in Note 8 to the basic financial statements.

### **Debt**

At June 30, 2019, the Educational Service Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences, net pension liability, and net OPEB liability. For additional information on long-term liabilities, see Note 9 to the basic financial statements.

### **Current Related Financial Activities**

In prior fiscal years, the 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 previously provided through a self-insured program. One of the medical coverage plans provided to employees in fiscal year 2015 was an indemnity plan that provided limited reimbursement for medical expenses. This plan had a much lower cost to the Educational Service Center, as compared to the self-insured program, but provided much less coverage to employees. In June 2017, the Educational Service Center had to terminate the indemnity plan due to low participation. The plan required a minimum number of employees be enrolled in the plan at any time and the Educational Service Center had not met that requirement in any of fiscal year 2016. The Educational Service Center offers a MEC plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for. The cost of this plan remains much less than what the self-insured plan was in the past. The Educational Service Center now also offers voluntary, supplemental coverage through American Fidelity as a benefit to employees as well. These plans include Flexible Spending Accounts, Disability, Accident and Life Insurance and are 100 percent employee paid.

The 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 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 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 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 Educational Service Center looks 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

## **Knox County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited*

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several areas that provide services and opportunities for students in the school districts served by the Educational Service Center. 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 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.

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 Educational Service Center is committed to providing the best service possible and to be fiscally responsible in its operation. The challenge that faces the Educational Service Center operation is not in providing quality services, but the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

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

### **Contacting the Educational Service Center'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 Judy Forney, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

## **Basic Financial Statements**

# Knox County Educational Service Center

## Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,019,257
Intergovernmental Receivable	275,031
Depreciable Capital Assets, Net	56,875
Net OPEB Asset (See Note 14)	<u>293,991</u>
<i>Total Assets</i>	<u>1,645,154</u>
<b>Deferred Outflows of Resources</b>	
Pension	2,248,858
OPEB	<u>275,692</u>
<i>Total Deferred Outflows of Resources</i>	<u>2,524,550</u>
<b>Liabilities</b>	
Accounts Payable	7,254
Accrued Wages Payable	359,566
Intergovernmental Payable	103,994
Long-Term Liabilities:	
Due Within One Year	26,146
Due In More Than One Year:	
Net Pension Liability (See Note 13)	8,277,664
Net OPEB Liability (See Note 14)	2,071,559
Other Amounts	<u>156,941</u>
<i>Total Liabilities</i>	<u>11,003,124</u>
<b>Deferred Inflows of Resources</b>	
Pension	813,368
OPEB	<u>698,410</u>
<i>Total Deferred Inflows of Resources</i>	<u>1,511,778</u>
<b>Net Position</b>	
Investment in Capital Assets	56,875
Restricted for:	
Student Activities	10,024
Staff Development	73,018
Daycare	3,559
Alternative Schools	1,461
Other Purposes	1,281
Unrestricted (Deficit)	<u>(8,491,416)</u>
<i>Total Net Position</i>	<u><u>(\$8,345,198)</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, 2019*

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$84,543	\$0	\$0	(\$84,543)
Special	3,877,255	5,642,190	216,754	1,981,689
Support Services:				
Pupils	523,961	0	0	(523,961)
Instructional Staff	157,669	0	27,365	(130,304)
Board of Education	14,820	0	0	(14,820)
Administration	697,464	0	0	(697,464)
Fiscal	185,046	0	0	(185,046)
Operation and Maintenance of Plant	24,772	0	0	(24,772)
Central	11,320	0	0	(11,320)
Extracurricular Activities	5,719	5,335	0	(384)
<i>Totals</i>	<u>\$5,582,569</u>	<u>\$5,647,525</u>	<u>\$244,119</u>	<u>309,075</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				
				237,816
Investment Earnings				
				3,901
Miscellaneous				
				<u>35,090</u>
<i>Total General Revenues</i>				
				<u>276,807</u>
Change in Net Position				
				585,882
<i>Net Position Beginning of Year</i>				
				<u>(8,931,080)</u>
<i>Net Position End of Year</i>				
				<u><u>(\$8,345,198)</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Balance Sheet  
Governmental Funds  
June 30, 2019*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$933,473	\$85,784	\$1,019,257
Interfund Receivable	57,695	0	57,695
Intergovernmental Receivable	227,048	47,983	275,031
<i>Total Assets</i>	<u>\$1,218,216</u>	<u>\$133,767</u>	<u>\$1,351,983</u>
<b>Liabilities</b>			
Accounts Payable	\$7,254	\$0	\$7,254
Accrued Wages Payable	353,038	6,528	359,566
Interfund Payable	0	56,450	56,450
Intergovernmental Payable	102,986	1,008	103,994
<i>Total Liabilities</i>	<u>463,278</u>	<u>63,986</u>	<u>527,264</u>
<b>Fund Balances</b>			
Restricted	0	89,669	89,669
Assigned	189,509	0	189,509
Unassigned (Deficit)	565,429	(19,888)	545,541
<i>Total Fund Balances</i>	<u>754,938</u>	<u>69,781</u>	<u>824,719</u>
<i>Total Liabilities, Deferred Inflows and Fund Balances</i>	<u>\$1,218,216</u>	<u>\$133,767</u>	<u>\$1,351,983</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, 2019*

<b>Total Governmental Funds Balances</b>	<b>\$824,719</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	56,875
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.	(1,245)
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(183,087)
The net OPEB asset and the net pension and net OPEB liabilities are not due and payable in the current period; therefore, the asset, liabilities and related deferred inflows/outflows are not reported in governmental funds:	
Net OPEB Asset	293,991
Deferred Outflows - Pension	2,248,858
Deferred Outflows - OPEB	275,692
Net Pension Liability	(8,277,664)
Net OPEB Liability	(2,071,559)
Deferred Inflows - Pension	(813,368)
Deferred Inflows - OPEB	(698,410)
Total	(9,042,460)
 <i>Net Position of Governmental Activities</i>	 <b><u>(\$8,345,198)</u></b>

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, 2019*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$257,412	\$187,449	\$444,861
Interest	3,877	0	3,877
Tuition and Fees	228,593	0	228,593
Extracurricular Activities	0	5,335	5,335
Contributions and Donations	0	39,630	39,630
Customer Services	5,413,597	0	5,413,597
Miscellaneous	31,429	3,661	35,090
<i>Total Revenues</i>	<u>5,934,908</u>	<u>236,075</u>	<u>6,170,983</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	80,569	511	81,080
Special	3,835,401	209,161	4,044,562
Support Services:			
Pupils	670,739	0	670,739
Instructional Staff	129,435	25,930	155,365
Board of Education	14,820	0	14,820
Administration	807,008	0	807,008
Fiscal	177,975	0	177,975
Operation and Maintenance of Plant	23,617	0	23,617
Central	5,180	0	5,180
Extracurricular Activities	0	5,719	5,719
<i>Total Expenditures</i>	<u>5,744,744</u>	<u>241,321</u>	<u>5,986,065</u>
<i>Net Change in Fund Balances</i>	190,164	(5,246)	184,918
<i>Fund Balances Beginning of Year</i>	<u>564,774</u>	<u>75,027</u>	<u>639,801</u>
<i>Fund Balances End of Year</i>	<u><u>\$754,938</u></u>	<u><u>\$69,781</u></u>	<u><u>\$824,719</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, 2019*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$184,918</b>
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*Amounts reported for governmental activities in the  
statement of activities are different because:*

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

Capital Asset Additions	7,010	
Depreciation	(18,216)	
Total	(11,206)	(11,206)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. (3,796)

Intergovernmental revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (2,556)

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. 20,090

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. (6,116)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:

Pension	634,657	
OPEB	55,424	
Total	690,081	690,081

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities are reported as pension/OPEB expense in the statement of activities:

Pension	(815,145)	
OPEB	529,612	
Total	(285,533)	(285,533)

<i>Change in Net Position of Governmental Activities</i>	<b><u><u>\$585,882</u></u></b>
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See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Fund Net Position*

*Internal Service Fund*

*June 30, 2019*

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	<u>Insurance</u>
<b>Assets</b>	\$0
<b>Liabilities</b>	
Interfund Payable	<u>1,245</u>
<b>Net Position</b>	
Unrestricted (Deficit)	<u><u>(\$1,245)</u></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, 2019*

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	<u>Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$19,189</u>
<b>Operating Expenses</b>	
Purchased Services	5,675
Claims	<u>19,654</u>
<i>Total Operating Expenses</i>	<u>25,329</u>
<i>Operating Loss</i>	(6,140)
<b>Non-Operating Revenues</b>	
Interest	<u>24</u>
Change in Net Position	(6,116)
<i>Net Position Beginning of Year</i>	<u>4,871</u>
<i>Net Position at End of Year</i>	<u><u>(\$1,245)</u></u>

See accompanying notes to the basic financial statements

**Knox County Educational Service Center**

*Statement of Cash Flows*

*Internal Service Fund*

*For the Fiscal Year Ended June 30, 2019*

	<u>Insurance</u>
<b>Decrease in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Interfund Services Provided	\$20,434
Cash Payments for Goods and Services	(5,675)
Cash Payments for Claims	<u>(19,654)</u>
<i>Net Cash Used for Operating Activities</i>	(4,895)
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>24</u>
<i>Decrease in Cash and Cash Equivalents</i>	(4,871)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,871</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$6,140)
Increase in Interfund Payable	<u>1,245</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$4,895)</u></u>
See accompanying notes to the basic financial statements	



**Knox County Educational Service Center**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2019*

	Private Purpose Trust	
	Wolfe Estate	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$13,545	\$87,024
<b>Liabilities</b>		
Undistributed Monies	0	\$87,024
<b>Net Position</b>		
Held in Trust for Scholarships	\$13,545	

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, 2019*

	<u>Wolfe Estate</u>
<b>Additions</b>	
Interest	\$324
<b>Deductions</b>	0
<i>Change in Net Position</i>	324
<i>Net Position Beginning of Year</i>	13,221
<i>Net Position End of Year</i>	\$13,545

See accompanying notes to the basic financial statements

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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

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

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and Federal agencies. The Board controls the Educational Service Center's support facilities staffed by 333 full and part time non-certificated and 89 full and part time certificated teaching personnel, and 10 administrators who provide services to 8,035 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 pool. These organizations are presented in Notes 10 and 11 to the basic financial statements. These organizations are the Knox County Career Center, META Solutions, 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 as follows.

## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### ***Basis of Presentation***

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net 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, 2019*

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**General Fund** The general fund is the operating fund of the Educational Service Center and is used to account and report for all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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, 2019*

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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 and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified 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 outflows/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 represent 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. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 13 and 14.

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 until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue, pension and OPEB plans. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (see Notes 13 and 14).

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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

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

### ***Cash and Cash Equivalents***

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2019, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates; however, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2019 amounted to \$3,877, of which \$350 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 acquisition 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.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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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.

***Compensated Absences***

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

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

***Accrued Liabilities and Long-Term Obligations***

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, 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. Net pension/OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plans’ fiduciary net position are not sufficient for payment of those benefits.

***Pensions/Other Postemployment Benefits (OPEB)***

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



## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### ***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.

***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 policies of the Educational Service Center Board of Education or an Educational Service Center official delegated that authority by resolution 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.

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.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

### ***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 – Changes in Accounting Principles**

For fiscal year 2019, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

GASB 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position.

Also, for fiscal year 2019, the Educational Service Center implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-2*. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position/fund balance.

### **Note 4 – Deposits and Investments**

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

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

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

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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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.

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time 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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

### Investments

As of June 30, 2019, the Educational Service Center's only investment was in STAR Ohio, which is measured at net asset value per share.

**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** 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.

### Note 5 – 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 as follows:

<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Restricted for:</b>			
Student Activities	\$0	\$10,024	\$10,024
Staff Development	0	73,018	73,018
Daycare	0	3,885	3,885
Alternative Schools	0	1,461	1,461
Federal Grants	0	1,281	1,281
<i>Total Restricted</i>	0	89,669	89,669
<b>Assigned to:</b>			
Purchases on Order	189,509	0	189,509
<b>Unassigned (Deficit)</b>	<u>565,429</u>	<u>(19,888)</u>	<u>545,541</u>
<b>Total Fund Balances</b>	<u>\$754,938</u>	<u>\$69,781</u>	<u>\$824,719</u>

### Note 6 – Receivables

Receivables at June 30, 2019, consisted of intergovernmental charges for services and 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, 2019

### Note 7 – State Funding

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school 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 8 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance 7/1/2018	Additions	Deductions	Balance 6/30/2019
<b>Governmental Activities</b>				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	\$377,853	\$7,010	(\$3,860)	\$381,003
Less Accumulated Depreciation	(305,976)	(18,216)*	64	(324,128)
Governmental Activities Capital Assets, Net	<u>\$71,877</u>	<u>(\$11,206)</u>	<u>(\$3,796)</u>	<u>\$56,875</u>

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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

Instruction:	
Regular	\$3,463
Special	7,426
Support Services:	
Pupils	312
Instructional Staff	2,992
Administration	3,937
Fiscal	86
Total Depreciation Expense	<u>\$18,216</u>

**Note 9 – Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center during fiscal year 2019 were as follows:

	Amount Outstanding 7/1/2018	Additions	Deletions	Amount Outstanding 6/30/2019	Amount Due in One Year
<b>Governmental Activities:</b>					
Compensated Absences	<u>\$203,177</u>	<u>\$18,292</u>	<u>\$38,382</u>	<u>\$183,087</u>	<u>\$26,146</u>
Net Pension Liability:					
STRS	4,161,809	0	139,026	4,022,783	0
SERS	<u>4,062,557</u>	<u>192,324</u>	<u>0</u>	<u>4,254,881</u>	<u>0</u>
Total Net Pension Liability	<u>8,224,366</u>	<u>192,324</u>	<u>139,026</u>	<u>8,277,664</u>	<u>0</u>
Net OPEB Liability:					
STRS	683,549	0	683,549	0	0
SERS	<u>1,846,381</u>	<u>225,178</u>	<u>0</u>	<u>2,071,559</u>	<u>0</u>
Total Net OPEB Liability	<u>2,529,930</u>	<u>225,178</u>	<u>683,549</u>	<u>2,071,559</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$10,957,473</u>	<u>\$435,794</u>	<u>\$860,957</u>	<u>\$10,532,310</u>	<u>\$26,146</u>

Compensated absences will be paid from the general fund and public school preschool and IDEA preschool special revenue funds. There is no repayment schedule for the net pension liability and the net OPEB liability; however, employer pension and OPEB contributions are made from the following funds: general fund and public school preschool and IDEA preschool special revenue funds. For additional information related to net pension liability and net OPEB liability, see Notes 13 and 14.

**Note 10 – Jointly Governed Organizations**

**Knox County Career Center** The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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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 2019. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

***META Solutions*** META Solutions is jointly governed organization among 128 member districts. META Solutions 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 META Solutions based upon a per pupil charge dependent upon the software package utilized. META Solutions 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 Educational Service Center paid \$51,946 for services during fiscal year 2019. Audited yearly financial statements are available at META Solutions, 100 Executive Drive, Marion, Ohio, 43302.

### **Note 11 – 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 Ohio School Boards Association (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 12 – Risk Management**

#### ***Property and Liability***

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2019, 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 four years. There have been no significant reductions in insurance coverage from last year.

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

For fiscal year 2019, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

***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, 2019, there is no claims liability in the fund. Changes in the fund’s claims liability amount in fiscal year 2018 and 2019 were:

<u>Fiscal Year</u>	<u>Balance Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance End of Year</u>
2018	\$0	\$18,317	\$18,317	\$0
2019	0	19,654	19,654	0

**Note 13 – Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability/Net OPEB Liability***

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to



## Knox County Educational Service Center

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net OPEB asset* or long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

### ***Plan Description – State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The Educational Service Center’s contractually required contribution to STRS was \$301,009 for fiscal year 2019. Of this amount \$35,666 is reported as an intergovernmental payable.

***Plan Description – School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

**Knox County Educational Service Center**

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An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

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 advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$333,648 for fiscal year 2019. Of this amount \$14,149 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.01751956%	0.06799510%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.01829556%</u>	<u>0.07429270%</u>	
Change in Proportionate Share	<u>0.00077600%</u>	<u>0.00629760%</u>	
Proportionate Share of the Net			
Pension Liability	\$4,022,783	\$4,254,881	\$8,277,664
Pension Expense	\$352,955	\$462,190	\$815,145

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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At June 30, 2019, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$92,858	\$233,354	\$326,212
Changes of assumptions	712,913	96,084	808,997
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	216,962	262,030	478,992
Educational Service Center contributions subsequent to the measurement date	<u>301,009</u>	<u>333,648</u>	<u>634,657</u>
Total Deferred Outflows of Resources	<u><u>\$1,323,742</u></u>	<u><u>\$925,116</u></u>	<u><u>\$2,248,858</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$26,271	\$0	\$26,271
Net difference between projected and actual earnings on pension plan investments	243,937	117,890	361,827
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	<u>363,417</u>	<u>61,853</u>	<u>425,270</u>
Total Deferred Inflows of Resources	<u><u>\$633,625</u></u>	<u><u>\$179,743</u></u>	<u><u>\$813,368</u></u>

\$634,657 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
2020	\$311,537	\$464,662	\$776,199
2021	95,609	122,852	218,461
2022	5,631	(139,634)	(134,003)
2023	<u>(23,669)</u>	<u>(36,155)</u>	<u>(59,824)</u>
Total	<u><u>\$389,108</u></u>	<u><u>\$411,725</u></u>	<u><u>\$800,833</u></u>

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, are presented as follows:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
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members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

***Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$5,874,745	\$4,022,783	\$2,455,348

***Actuarial Assumptions – SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented as follows:

Inflation	3.00 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent
Investment Rate of Return	2.5 percent
Actuarial Cost Method	7.50 percent net of investment expense, including inflation Entry Age Normal (Level Percent of Payroll)

**Knox County Educational Service Center**

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Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$5,993,320	\$4,254,881	\$2,797,315

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 14 – Defined Benefit OPEB Plans**

See Note 13 for a description of the net OPEB liability.

***Plan Description – State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS, which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***Plan Description – School Employees Retirement System (SERS)***

Health Care Plan Description – The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.



**Knox County Educational Service Center**

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Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Educational Service Center’s surcharge obligation was \$43,067.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center’s contractually required contribution to SERS was \$55,424 for fiscal year 2019. Of this amount \$43,591 is reported as an intergovernmental payable.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center’s proportion of the net OPEB liability (asset) was based on the Educational Service Center’s share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.01751956%	0.06879890%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.01829556%</u>	<u>0.07467041%</u>	
Change in Proportionate Share	<u>0.00077600%</u>	<u>0.00587151%</u>	
Proportionate Share of the:			
Net OPEB Liability	\$0	\$2,071,559	\$2,071,559
Net OPEB (Asset)	(\$293,991)	\$0	(\$293,991)
OPEB Expense	(\$639,056)	\$109,444	(\$529,612)

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

At June 30, 2019, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$34,338	\$33,815	\$68,153
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	27,653	124,462	152,115
Educational Service Center contributions subsequent to the measurement date	<u>0</u>	<u>55,424</u>	<u>55,424</u>
Total Deferred Outflows of Resources	<u><u>\$61,991</u></u>	<u><u>\$213,701</u></u>	<u><u>\$275,692</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$17,129	\$0	\$17,129
Changes of assumptions	400,586	186,114	586,700
Net difference between projected and actual earnings on OPEB plan investments	33,586	3,108	36,694
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	<u>\$30,032</u>	<u>\$27,855</u>	<u>\$57,887</u>
Total Deferred Inflows of Resources	<u><u>\$481,333</u></u>	<u><u>\$217,077</u></u>	<u><u>\$698,410</u></u>

\$55,424 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	(\$76,049)	(\$68,565)	(\$144,614)
2021	(76,049)	(48,230)	(124,279)
2022	(76,049)	16,162	(59,887)
2023	(68,421)	17,485	(50,936)
2024	(65,749)	17,269	(48,480)
Thereafter	<u>(57,025)</u>	<u>7,079</u>	<u>(49,946)</u>
Total	<u><u>(\$419,342)</u></u>	<u><u>(\$58,800)</u></u>	<u><u>(\$478,142)</u></u>

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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### Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented as follows:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return - Current Year	7.45 percent
Blended Discount Rate of Return - Prior Year	4.13 percent
Health Care Cost Trends	
Medical:	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug:	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020; however, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan (see Note 13).

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net OPEB asset	(\$251,978)	(\$293,991)	(\$329,301)

  

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's proportionate share of the net OPEB asset	(\$327,308)	(\$293,991)	(\$260,155)

**Actuarial Assumptions – SERS**

The total OPEB liability is determined by SERS’ actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

## Knox County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented as follows:

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption:	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan (see Note 13).

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General

**Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Educational Service Center's proportionate share of the net OPEB liability	\$2,513,674	\$2,071,559	\$1,721,487

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
Educational Service Center's proportionate share of the net OPEB liability	\$1,671,368	\$2,071,559	\$2,601,483

**Note 15 – Other Employee Benefits**

The criteria for determining vacation and sick leave benefits are derived from State laws. Administrators that work 12 months earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Employees working less than 12 months per year 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 12). The Educational Service Center also offers a Minimum Essential Coverage (MEC) plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for.

## **Knox County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 16 – Contingencies**

#### ***Grants***

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2019.

#### ***Foundation Funding***

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2019 are finalized. As a result, there was no impact on the Educational Service Center's financial statements.

#### ***Litigation***

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

### **Note 17 – Interfund Balances**

The interfund receivable of \$57,695 in general fund represents advances to other governmental funds and the internal service fund to offset deficit cash at June 30, 2019.

### **Note 18 – Encumbrances**

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 \$202,138 and \$1,076 in the general fund and other governmental funds, respectively.

### **Note 19 – Accountability**

At June 30, 2019, the Educational Service Center had deficit fund balances of \$334, \$19,554, and \$1,245, in the miscellaneous state grants and IDEA preschool special revenue funds and the self-insurance fund, respectively. The special revenue funds' deficits resulted from adjustments for accrued liabilities and from interfund payables. The general fund provided money to operate the programs until grants and other monies are received and the advances can be repaid. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Six Fiscal Years (1)*

	2019	2018
Educational Service Center's Proportion of the Net Pension Liability	0.01829556%	0.01751956%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,022,783	\$4,161,809
Educational Service Center's Covered Payroll	\$2,122,021	\$1,923,643
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	189.57%	216.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.30%	75.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information



2017	2016	2015	2014
0.01830573%	0.02024564%	0.01846323%	0.01846323%
\$6,127,480	\$5,595,302	\$4,490,897	\$5,349,527
\$1,901,429	\$2,176,450	\$1,929,836	\$2,095,262
322.26%	257.08%	232.71%	255.32%
66.80%	72.10%	74.70%	69.30%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Six Fiscal Years (1)*

	2019	2018
Educational Service Center's Proportion of the Net Pension Liability	0.07429270%	0.06799510%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,254,881	\$4,062,557
Educational Service Center's Covered Payroll	\$2,400,696	\$2,285,914
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	177.24%	177.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2017	2016	2015	2014
0.06998150%	0.06507680%	0.06822300%	0.06822300%
\$5,122,000	\$3,713,346	\$3,452,728	\$4,057,003
\$2,158,079	\$1,962,614	\$2,005,885	\$1,926,145
237.34%	189.20%	172.13%	210.63%
62.98%	69.16%	71.70%	65.52%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)*  
*State Teachers Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability (Asset)	0.01829556%	0.01751956%	0.01830573%
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$293,991)	\$683,549	\$978,995
Educational Service Center's Covered Payroll	\$2,122,021	\$1,923,643	\$1,901,429
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-13.85%	35.53%	51.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	176.00%	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability*  
*School Employees Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.07467041%	0.06879890%	0.07060040%
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$2,071,559	\$1,846,381	\$2,012,373
Educational Service Center's Covered Payroll	\$2,400,696	\$2,285,914	\$2,158,079
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	86.29%	80.77%	93.25%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

\* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2019	2018	2017	2016
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$301,009	\$297,083	\$269,310	\$266,200
Contributions in Relation to the Contractually Required Contribution	<u>(301,009)</u>	<u>(297,083)</u>	<u>(269,310)</u>	<u>(266,200)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$2,150,064	\$2,122,021	\$1,923,643	\$1,901,429
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability (Asset)</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

2015	2014	2013	2012	2011	2010
\$304,703	\$250,879	\$272,384	\$275,860	\$271,119	\$291,758
(304,703)	(250,879)	(272,384)	(275,860)	(271,119)	(291,758)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,176,450	\$1,929,836	\$2,095,262	\$2,122,000	\$2,085,531	\$2,244,292
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$0	\$19,298	\$20,953	\$21,220	\$20,855	\$22,443
0	(19,298)	(20,953)	(21,220)	(20,855)	(22,443)
\$0	\$0	\$0	\$0	\$0	\$0
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

**Knox County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	2019	2018	2017	2016
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$333,648	\$324,094	\$320,028	\$302,131
Contributions in Relation to the Contractually Required Contribution	(333,648)	(324,094)	(320,028)	(302,131)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$2,471,467	\$2,400,696	\$2,285,914	\$2,158,079
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	\$55,424	\$49,236	\$36,570	\$34,359
Contributions in Relation to the Contractually Required Contribution	(55,424)	(49,236)	(36,570)	(34,359)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>2.24%</u>	<u>2.05%</u>	<u>1.60%</u>	<u>1.59%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>15.74%</u>	<u>15.55%</u>	<u>15.60%</u>	<u>15.59%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information



2015	2014	2013	2012	2011	2010
\$258,673	\$278,016	\$266,578	\$246,200	\$244,104	\$247,998
(258,673)	(278,016)	(266,578)	(246,200)	(244,104)	(247,998)
\$0	\$0	\$0	\$0	\$0	\$0
\$1,962,614	\$2,005,885	\$1,926,145	\$1,830,480	\$1,941,956	\$1,831,596
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
\$49,650	\$35,476	\$41,605	\$46,678	\$66,609	\$45,057
(49,650)	(35,476)	(41,605)	(46,678)	(66,609)	(45,057)
\$0	\$0	\$0	\$0	\$0	\$0
2.53%	1.77%	2.16%	2.55%	3.43%	2.46%
15.71%	15.63%	16.00%	16.00%	16.00%	16.00%

**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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***Net Pension Liability***

**Changes in Assumptions – STRS**

Beginning with fiscal year 2018, amounts reported incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented as follows:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Beginning with fiscal year 2018, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

**Changes in Assumptions – SERS**

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These assumptions compared with those used in fiscal year 2016 and prior are presented as follows:

**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

***Net OPEB Liability (Asset)***

**Changes in Assumptions – STRS**

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent.

**Changes in Benefit Terms – STRS**

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

**Knox County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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**Changes in Assumptions – SERS**

Amounts reported incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented as follows:

Municipal Bond Index Rate:	
Fiscal Year 2019	3.62 percent
Fiscal Year 2018	3.56 percent
Fiscal Year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Fiscal Year 2019	3.70 percent
Fiscal Year 2018	3.63 percent
Fiscal Year 2017	2.98 percent

**Additional Supplementary Information**

**Additional Supplementary 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, 2019*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental			\$257,412	
Interest			4,401	
Tuition and Fees			228,593	
Customer Services			5,450,112	
Miscellaneous			31,429	
<i>Total Revenues</i>			<u>5,971,947</u>	
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	123,524	123,524	123,524	0
Special	3,946,908	3,958,558	3,800,356	158,202
Support Services:				
Pupils	829,654	829,654	728,005	101,649
Instructional Staff	210,835	210,835	155,008	55,827
Board of Education	33,404	33,404	15,500	17,904
Administration	1,113,891	1,113,891	933,752	180,139
Fiscal	196,967	196,967	183,281	13,686
Operation and Maintenance of Plant	38,744	38,744	25,931	12,813
Central	9,975	9,975	9,265	710
<i>Total Expenditures</i>	<u>6,503,902</u>	<u>6,515,552</u>	<u>5,974,622</u>	<u>540,930</u>
<i>Net Change in Fund Balance</i>	(6,503,902)	(6,515,552)	(2,675)	
<i>Fund Balance Beginning of Year</i>			701,224	
Prior Year Encumbrances Appropriated			<u>90,481</u>	
<i>Fund Balance End of Year</i>			<u><u>\$789,030</u></u>	

See accompanying notes to the additional supplementary information

**Knox County Educational Service Center**  
*Notes to the Additional Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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**Note 1 – Budgetary Basis of Accounting**

***Budgetary Process***

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

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center’s Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board. 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 fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned (GAAP).

**Knox County Educational Service Center**  
*Notes to the Additional Supplementary Information*  
*For the Fiscal Year Ended June 30, 2019*

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

	<u>General</u>
GAAP Basis	\$190,164
Net Adjustment for Revenue Accruals	37,039
Net Adjustment for Expenditure Accruals	(27,740)
Encumbrances	<u>(202,138)</u>
Budget Basis	<u><u>(\$2,675)</u></u>





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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Knox County Educational Service Center, Knox County, (the Educational Service Center) as of and for the years ended June 30, 2020 and June 30, 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center’s basic financial statements and have issued our report thereon dated May 3, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Educational Service Center.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Educational Service Center’s internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Educational Service 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 Educational Service 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2020-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the Educational Service 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 financial statement. 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-001.

***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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 3, 2021

**KNOX COUNTY EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

**SCHEDULE OF FINDINGS**

**JUNE 30, 2020 AND 2019**

<b>1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2020-001**

**Recording in Incorrect Fund – Noncompliance and Material Weakness**

**Ohio Rev. Code § 5705.10(D)** provides in part that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

In 2020, the Educational Service Center inappropriately recorded \$7,470 into the General Fund as Tuition and Fees. Given the source of the revenue, \$7,470 should have been recorded in the Other Grants Fund as Contributions and Donations. In 2019, the Education Service Center inappropriately recorded a prior period adjustment of \$3,661 to the General Fund. The adjustment should have been recorded as \$225 in the Daycare Fund as Miscellaneous Revenue and \$3,436 in the Other Federal Funds as Miscellaneous Revenue. Audit adjustments are reflected in the June 30, 2020 and 2019 financial statements and in the accounting records correcting these misstatements.

The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities.

The Educational Service Center should implement effective control procedures over the financial accounting and reporting process in order to enable management to prevent and detect potential misstatements in the accounting ledgers, financial statements and footnotes. They should review the accounting ledgers and the financial information for accuracy and completeness before it is provided to the accountant compiling the financial statements. Once the financial statements are prepared by the accountant the Treasurer should review the compiled financial statements and note disclosures prior to submitting to the Auditor of State's office.

**Officials' Response:**

We did not receive a response from the Educational Service Center to these findings.

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# OHIO AUDITOR OF STATE KEITH FABER



**KNOX COUNTY EDUCATIONAL SERVICE CENTER**

**KNOX COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 7/6/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)