



Dave Yost • Auditor of State



**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types FYE 12/31/16.....	3
Notes to the Financial Statements FYE 12/31/16.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types FYE 12/31/15.....	11
Notes to the Financial Statements FYE 12/31/15.....	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

District Board of Health  
Knox County  
11660 Upper Gilchrist Road  
Mount Vernon, Ohio 43050

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of District Board of Health, Knox County, Ohio (the District) as of and for the years ended December 31, 2016 and 2015.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 District'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 District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the District prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the District does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2016 and 2015, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of District Board of Health, Knox County, Ohio (the District) as of December 31, 2016 and 2015, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2017, on our consideration of the District'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 District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 22, 2017

DISTRICT BOARD OF HEALTH  
KNOX COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	All Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Cash Receipts:</b>			
Charges for Services	\$ 49,926	\$ 26,338	\$ 76,264
Fines, Licenses, Permits & Fees	172,046	1,867,896	2,039,942
Intergovernmental:			
Special Levy	966,465	-	966,465
Grants	61,185	550,123	611,308
Refunds & Reimbursements	6,464	-	6,464
Contracts	83,134	-	83,134
Other	75,939	78,672	154,611
Miscellaneous	-	3,017	3,017
Total Cash Receipts	<u>1,415,159</u>	<u>2,526,046</u>	<u>3,941,205</u>
<b>Cash Disbursements:</b>			
Current Disbursements:			
Health:			
Salaries & Fringes	711,471	1,722,178	2,433,649
Travel & Expenses	9,819	62,051	71,870
Supplies & Equipment	28,533	268,970	297,503
Contract, Services, Repair	193,236	255,207	448,443
Building Lease (Bond)	129,143	-	129,143
Other	85,197	94,061	179,258
Advertising & Printing	9,994	10,768	20,762
Utilities	33,169	25,933	59,102
Equipment	75,270	17,008	92,278
Total Disbursements	<u>1,275,832</u>	<u>2,456,176</u>	<u>3,732,008</u>
Total Receipts Over Disbursements	<u>139,327</u>	<u>69,870</u>	<u>209,197</u>
<b>Other Financing Receipts/(Disbursements):</b>			
Transfers-In	1	54,000	54,001
Advances-In	11,962	17,500	29,462
Transfers-Out	(54,000)	(1)	(54,001)
Advances-Out	(17,500)	(11,962)	(29,462)
Total Other Financing Receipts/(Disbursements)	<u>(59,537)</u>	<u>59,537</u>	<u>-</u>
Net Change in Fund Cash Balances	<u>79,790</u>	<u>129,407</u>	<u>209,197</u>
Fund Cash Balances, January 1	<u>447,016</u>	<u>473,513</u>	<u>920,529</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	2,391	144,409	146,800
Committed	-	458,511	458,511
Assigned	138,412	-	138,412
Unassigned	386,003	-	386,003
<b>Fund Cash Balances, December 31</b>	<u>\$ 526,806</u>	<u>\$ 602,920</u>	<u>\$ 1,129,726</u>

The notes to the financial statements are an integral part of this statement.

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**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the District Board of Health, Knox County, Ohio, (the District) as a body corporate and politic. A nine-member Board and a Health Commissioner govern the District. The Board is comprised of three members appointed by the City of Mount Vernon, five members appointed by the Health Advisory Council of Knox County and one alternate member appointed by the Health Licensing Council. The District's services include communicable disease investigations, immunization clinics, inspections, public health nursing services and issues health-related licenses and permits.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits**

As required by the Ohio Revised Code, the Knox County Treasurer is custodian for the District's deposits. The County's deposit and investment pool holds the District's assets, valued at the Treasurer's reported carrying amount.

**D. Fund Accounting**

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District had the following significant Special Revenue Fund:

Home Health Nursing Fund - This fund is used to provide home nursing services to the elderly and home-bound persons.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires the District to budget each fund annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The District Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 2.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The District classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *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.

**3. Committed**

The Board can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Board amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Board or a District official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The District 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.

**G. Property, Plant, and Equipment**

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Budgetary Activity**

Budgetary activity for the years ending 2016 follows:

<u>2016 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	1,560,115	1,427,122	(\$132,993)
Special Revenue	<u>2,823,864</u>	<u>2,597,546</u>	<u>(\$226,318)</u>
Total	<u>4,383,979</u>	<u>4,024,668</u>	<u>(\$359,311)</u>

<u>2016 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	1,628,927	1,395,568	233,359
Special Revenue	<u>2,818,914</u>	<u>2,492,726</u>	<u>326,188</u>
Total	<u>4,447,841</u>	<u>3,888,294</u>	<u>559,547</u>

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**3. Intergovernmental Funding**

The County apportions the excess of the District's appropriations over other estimated receipts among the townships and municipalities composing the District, based on their taxable property valuations. The County withholds the apportioned excess from property tax settlements and distributes it to the District. The financial statements present these amounts as intergovernmental receipts.

The County Commissioners serve as a special taxing authority for a special levy outside the ten-mill limitation to provide the District with sufficient funds for health programs. The levy generated \$966,465 in 2016. The financial statements present these amounts as intergovernmental receipts.

**4. Retirement Systems**

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2016, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2016.

**5. Postemployment Benefits**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, that includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**6. Risk Management**

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**6. Risk Management (Continued)**

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	<b><u>2016</u></b>
Assets	\$42,182,281
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the District's share of these unpaid claims collectible in future years is approximately \$5,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<b><u>2016 Contributions to PEP</u></b>
<b><u>\$8,882</u></b>

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**7. Contingent Liabilities**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**8. Health Department Capital Lease**

Capital lease outstanding at December 31, 2016 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Building Lease	\$ 585,764	3.50%

Knox County issued a 20 year bond issue on August 15, 2000, to fund the construction of the new health department building. The Knox County District Board of Health entered into a 20 year lease with the County which requires the District to pay the County yearly payments which match the yearly principal and interest on the bonds outstanding. In 2010, Knox County refinanced the bonds to obtain a lower interest rate.

The required remaining lease payments at December 31, 2016 are as follows:

Year ending December 31:	Building Lease
2017	\$ 126,763
2018	127,088
2019	127,000
2020	126,480
2021	124,800
Total	\$ 632,131
Less Interest:	46,368
Lease Principal	\$ 585,764

**9. Interfund Balances**

***Advances***

Outstanding advances at December 31, 2016, consisted of \$328,000 advanced to various Special Revenue funds to provide working capital for operations or projects.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>All Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Charges for Services	\$ 49,907	\$ -	\$ 49,907
Fines, Licenses, Permits & Fees	171,428	1,628,337	1,799,765
Intergovernmental:			
Special Levy	952,258	-	952,258
Grants	53,091	501,499	554,590
Refunds & Reimbursements	6,695	-	6,695
Contracts	117,789	37,505	155,294
Other	21,153	233	21,386
Miscellaneous	-	4,219	4,219
<b>Total Cash Receipts</b>	<u>1,372,321</u>	<u>2,171,793</u>	<u>3,544,114</u>
<b>Cash Disbursements:</b>			
Current Disbursements:			
Health:			
Salaries & Fringes	604,276	1,497,773	2,102,049
Travel & Expenses	11,732	54,275	66,007
Supplies & Equipment	23,074	171,247	194,321
Contract, Services, Repair	129,739	375,218	504,957
Building Lease (Bond)	127,893	-	127,893
Other	106,178	60,588	166,766
Advertising & Printing	16,360	7,971	24,331
Utilities	35,832	24,370	60,202
Equipment	4,499	63,277	67,776
<b>Total Disbursements</b>	<u>1,059,583</u>	<u>2,254,719</u>	<u>3,314,302</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>312,738</u>	<u>(82,926)</u>	<u>229,812</u>
<b>Other Financing Receipts/(Disbursements):</b>			
Transfers-In	237	67,000	67,237
Advances-In	-	71,100	71,100
Transfers-Out	(67,000)	(237)	(67,237)
Advances-Out	(71,100)	-	(71,100)
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>(137,863)</u>	<u>137,863</u>	<u>-</u>
<b>Net Change in Fund Cash Balances</b>	<u>174,875</u>	<u>54,937</u>	<u>229,812</u>
<b>Fund Cash Balances, January 1</b>	<u>272,141</u>	<u>418,576</u>	<u>690,717</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	11,784	182,916	194,700
Committed	-	290,597	290,597
Assigned	80,863	-	80,863
Unassigned	354,369	-	354,369
<b>Fund Cash Balances, December 31</b>	<u>\$ 447,016</u>	<u>\$ 473,513</u>	<u>\$ 920,529</u>

*The notes to the financial statements are an integral part of this statement.*

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**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the District Board of Health, Knox County, Ohio, (the District) as a body corporate and politic. A nine-member Board and a Health Commissioner govern the District. The Board is comprised of three members appointed by the City of Mount Vernon, five members appointed by the Health Advisory Council of Knox County and one alternate member appointed by the Health Licensing Council. The District's services include communicable disease investigations, immunization clinics, inspections, public health nursing services and issues health-related licenses and permits.

The District's management believes these financial statements present all activities for which the District is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits**

As required by the Ohio Revised Code, the Knox County Treasurer is custodian for the District's deposits. The County's deposit and investment pool holds the District's assets, valued at the Treasurer's reported carrying amount.

**D. Fund Accounting**

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District had the following significant Special Revenue Fund:

Home Health Nursing Fund - This fund is used to provide home nursing services to the elderly and home-bound persons.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires the District to budget each fund annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The District Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2015 budgetary activity appears in Note 2.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The District classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *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.

**3. Committed**

The Board can *commit* amounts via formal action (resolution). The District must adhere to these commitments unless the Board amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Board or a District official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The District 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.

**G. Property, Plant, and Equipment**

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Budgetary Activity**

Budgetary activity for the year ending 2015 follows:

<u>2015 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	1,484,640	1,372,558	(\$112,082)
Special Revenue	<u>2,619,299</u>	<u>2,309,893</u>	<u>(\$309,406)</u>
Total	<u>4,103,939</u>	<u>3,682,451</u>	<u>(\$421,488)</u>

<u>2015 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	1,480,245	1,278,546	201,699
Special Revenue	<u>2,633,301</u>	<u>2,309,519</u>	<u>323,782</u>
Total	<u>4,113,546</u>	<u>3,588,065</u>	<u>525,481</u>

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**3. Intergovernmental Funding**

The County apportions the excess of the District's appropriations over other estimated receipts among the townships and municipalities composing the District, based on their taxable property valuations. The County withholds the apportioned excess from property tax settlements and distributes it to the District. The financial statements present these amounts as intergovernmental receipts.

The County Commissioners serve as a special taxing authority for a special levy outside the ten-mill limitation to provide the District with sufficient funds for health programs. The levy generated \$952,258 in 2015. The financial statements present these amounts as intergovernmental receipts.

**4. Retirement Systems**

The District's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015, OPERS members contributed 10% of their gross salaries and the District contributed an amount equaling 14% of participants' gross salaries. The District has paid all contributions required through December 31, 2015.

**5. Postemployment Benefits**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, that includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**6. Risk Management**

The District is exposed to various risks of property and casualty losses, and injuries to employees.

The District insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The District belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2015, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**6. Risk Management (Continued)**

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2014 and 2015.

	<u>2014</u>	<u>2015</u>
Assets	\$35,402,177	\$38,307,677
Liabilities	<u>(12,363,257)</u>	<u>(12,759,127)</u>
Net Position	<u>\$23,038,920</u>	<u>\$25,548,550</u>

At December 31, 2014 and 2015, respectively, the liabilities above include approximately 11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the District's share of these unpaid claims collectible in future years is approximately \$5,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>
<u>2015</u>
\$7,283.00

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**7. Contingent Liabilities**

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**DISTRICT BOARD OF HEALTH  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**8. Health Department Capital Lease**

Capital lease outstanding at December 31, 2015 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Building Lease	\$ 693,143	3.50%

Knox County issued a 20 year bond issue on August 15, 2000, to fund the construction of the new health department building. The Knox County District Board of Health entered into a 20 year lease with the County which requires the District to pay the County yearly payments which match the yearly principal and interest on the bonds outstanding. In 2010, Knox County refinanced the bonds to obtain a lower interest rate.

The required remaining lease payments at December 31, 2016 are as follows:

Year ending December 31:	Building Lease
2016	129,142
2017	126,763
2018	127,088
2019-2021	378,280
Total	\$ 761,273
Less Interest:	68,130
<i>Lease Principal</i>	<i>\$ 693,143</i>

**9. Interfund Balances**

***Advances***

Outstanding advances at December 31, 2015, consisted of \$318,500 advanced to various Special Revenue funds to provide working capital for operations or projects.



# Dave Yost • Auditor of State

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

District Board of Health  
Knox County  
11660 Upper Gilchrist Road  
Mount Vernon, Ohio 43050

To the Members of the Board:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the cash balances, receipts, and disbursements by fund type of the District Board of Health, Knox County, Ohio (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated August 22, 2017 wherein we noted the District followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

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

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the 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 District'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 District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 22, 2017





# Dave Yost • Auditor of State

**KNOX COUNTY DISTRICT BOARD OF HEALTH**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 19, 2017**