



Dave Yost • Auditor of State

**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

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 year ended June 30, 2016, 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 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 Knox County Educational Service Center, Knox County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, the *required budgetary comparison schedule*, and *schedules of net pension liabilities and pension 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2017, 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.



Dave Yost
Auditor of State
Columbus, Ohio

March 27, 2017

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

The discussion and analysis of Knox County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- The Educational Service Center needed to control the cost of health care for employees and no longer offered full medical insurance as of July 1, 2012. Employees are offered an indemnity plan which offers limited medical reimbursement, with the employees paying 100 percent of the cost as of July 1, 2016. Prior to July 1, 2016 the premiums for the indemnity plan were 100 percent board paid. The Educational Service Center also offers employees Minimum Essential Coverage through FreedomCare, which is 100 percent board paid.
- Employees received step increases with their 2016-2017 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 Knox County Educational Service Center as a financial whole, or complete operating entity.

The statement of net position and statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of Knox County Educational Service Center, the most significant fund is the general fund.

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The statement of net position and statement of activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses, regardless of when cash is received or paid.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

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

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 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.

Knox County Educational Service Center

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The Educational Service Center as a Whole

You may recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2016 compared to 2015:

Table 1
Net Position
Governmental Activities

	2016	2015	Change
Assets			
Current and Other Assets	\$1,121,199	\$854,232	\$266,967
Capital Assets, Net	144,051	168,145	(24,094)
<i>Total Assets</i>	<u>1,265,250</u>	<u>1,022,377</u>	<u>242,873</u>
Deferred Outflows of Resources	<u>1,294,723</u>	<u>635,997</u>	<u>658,726</u>
Liabilities			
Current Liabilities	580,596	504,380	(76,216)
Long-Term Liabilities:			
Due Within One Year	44,555	16,051	(28,504)
Due in More Than One Year:			
Net Pension Liability	9,308,648	7,943,625	(1,365,023)
Other Amounts	135,848	179,577	43,729
<i>Total Liabilities</i>	<u>10,069,647</u>	<u>8,643,633</u>	<u>(1,426,014)</u>
Deferred Inflows of Resources	<u>664,769</u>	<u>1,391,220</u>	<u>726,451</u>
Net Position			
Investment in Capital Assets	144,051	168,145	(24,094)
Restricted for:			
Staff Development	53,032	47,376	5,656
Other Purposes	12,055	6,990	5,065
Unrestricted (Deficit)	<u>(8,383,581)</u>	<u>(8,598,990)</u>	<u>215,409</u>
<i>Total Net Position</i>	<u><u>(\$8,174,443)</u></u>	<u><u>(\$8,376,479)</u></u>	<u><u>\$202,036</u></u>

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the Educational Service Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension 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. GASB noted that the unfunded portion of this pension 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 this liability. 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 employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, 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 pension 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 is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Knox County Educational Service Center*Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2016**Unaudited*

Table 2 shows revenues, expenses and changes in net position for fiscal years 2016 and 2015.

Table 2
Changes in Net Position
Governmental Activities

	2016	2015	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$5,541,547	\$4,914,538	\$627,009
Operating Grants and Contributions	225,098	336,656	(111,558)
Total Program Revenues	<u>5,766,645</u>	<u>5,251,194</u>	<u>515,451</u>
General Revenues:			
Grants and Entitlements	248,155	256,372	(8,217)
Unrestricted Contributions	0	500	(500)
Investment Earnings	2,086	256	1,830
Miscellaneous	1,315	32,828	(31,513)
Total General Revenues	<u>251,556</u>	<u>289,956</u>	<u>(38,400)</u>
Total Revenues	<u>6,018,201</u>	<u>5,541,150</u>	<u>477,051</u>
Program Expenses			
Instruction:			
Regular	189,854	223,283	33,429
Special	3,529,587	3,228,028	(301,559)
Support Services:			
Pupils	807,970	740,178	(67,792)
Instructional Staff	223,293	267,814	44,521
Board of Education	22,684	22,487	(197)
Administration	917,122	806,906	(110,216)
Fiscal	84,492	112,607	28,115
Operation and Maintenance of Plant	23,688	22,994	(694)
Central	13,831	3,885	(9,946)
Extracurricular Activities	3,644	5,273	1,629
Total Program Expenses	<u>5,816,165</u>	<u>5,433,455</u>	<u>(382,710)</u>
Increase in Net Position	202,036	107,695	94,341
<i>Net Position Beginning of Year</i>	<u>(8,376,479)</u>	<u>(8,484,174)</u>	<u>107,695</u>
<i>Net Position End of Year</i>	<u><u>(\$8,174,443)</u></u>	<u><u>(\$8,376,479)</u></u>	<u><u>\$202,036</u></u>

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

Governmental Activities

A review of Table 2 shows the Educational Service Center net position increased from fiscal year 2015. While revenues increased due to an increase in charges for services and sales, expenses were kept within the revenues available to spend. The Educational Service Center drastically reduced expenses in prior fiscal years and continues to scrutinize every purchase.

The statement of activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by general revenue.

**Table 3
Governmental Activities**

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Governmental Activities:				
Instruction:				
Regular	\$189,854	(\$189,854)	\$223,283	(\$223,283)
Special	3,529,587	2,162,993	3,228,028	1,852,237
Support Services:				
Pupils	807,970	(764,403)	740,178	(700,299)
Instructional Staff	223,293	(198,293)	267,814	(142,824)
Board of Education	22,684	(22,684)	22,487	(22,487)
Administration	917,122	(917,122)	806,906	(806,906)
Fiscal	84,492	(84,492)	112,607	(112,607)
Operation and Maintenance of Plant	23,688	(23,688)	22,994	(22,994)
Central	13,831	(13,831)	3,885	(3,885)
Extracurricular Activities	3,644	1,854	5,273	787
Total	<u>\$5,816,165</u>	<u>(\$49,520)</u>	<u>\$5,433,455</u>	<u>(\$182,261)</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. All governmental funds had total revenues of \$5,850,968 and expenditures of \$5,819,741. The general fund is the most significant and had the largest change in fund balance. This increase was caused by an increase customer services revenue.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

General Fund Budgeting Highlights

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

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

For the general fund, final budget basis appropriations totaled \$6,582,469, which was higher than the original estimate. Actual expenditures were \$947,046 lower than the final estimate, due to conservative budgeting.

The general fund's unencumbered ending cash balance totaled \$680,164, which was slightly more than the beginning unencumbered cash balance of \$668,781. This is due to expenditures being held below revenues during fiscal year 2016.

Capital Assets

Table 4 shows fiscal year 2016 values compared to 2015. More detailed information is presented in Note 8 to the basic financial statements.

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Furniture, Fixtures and Equipment	<u>\$144,051</u>	<u>\$168,145</u>	<u>(\$24,094)</u>

All capital assets are reported net of depreciation. As one can see, there was a slight decrease in capital assets during the fiscal year. Purchases of capital assets were lower than the annual depreciation during fiscal year 2016.

Debt

At June 30, 2016, 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 and net pension liability. For additional information on long-term liabilities, see Note 9 to the basic financial statements.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

Current Related Financial Activities

In prior fiscal years, the Knox County Educational Service Center faced several cash flow issues related to self insurance and rising expenditures in the general fund. A fifteen percent increase in insurance premiums was implemented effective July 1, 2011 and employees were responsible for the entire premium increase in fiscal year 2012. The Educational Service Center continued to explore ways of reducing the deficit in fiscal year 2013 and was able to end the year with a positive cash balance in the general fund. The largest savings in fiscal year 2013 was the elimination of the medical and prescription drug insurance coverage that was previously provided through a self-insured program. One of the medical coverage plans provided to employees in fiscal year 2015 is an indemnity plan that provides limited reimbursement for medical expenses. This plan has a much lower cost to the Educational Service Center, as compared to the self-insured program, but provides much less coverage to employees. The 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. The cost of this plan remains much less than what the self-insured plan was in the past.

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

The Knox County Educational Service Center relies heavily on not only contracts with local districts, State foundation revenue, but grants and other revenue it is able to generate. The fact that educational service centers are not fully funded by the State, makes it imperative that the Knox County Education Service Center look for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local districts to improve their instructional programs and to develop school improvement strategies. The Educational Service Center has been able to secure grant funding in several areas that provide services and opportunities for students in the school districts served by the Educational Service Center. One example of this is the 21st Century Grant, which provided funding during fiscal year 2015 to pay for after school activities for students at the Learning Center and funded the staff participating in the program. The Virtual Academy that was established in fiscal year 2012 more than paid for itself in fiscal year 2015. Additional revenue was generated by providing professional development to the school districts served by the Educational Service Center and providing speech and occupational therapy services to outside organizations. The Knox County Educational Service Center also continued charging an administration fee for all services provided to local districts. In fiscal year 2014, this fee was increased from three percent to four percent.

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

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

Irrespective of the instability of funding in the State of Ohio, and the uncertainty of how educational service centers deliver services on a regional basis, the Knox County Educational Service Center is committed to providing the best service possible and to be fiscally responsible in its operation. The challenge that faces the Knox County Educational Service Center operation is not in providing quality services, but the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

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

Contacting the 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 Brittany Keller, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

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Knox County Educational Service Center

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$844,044
Accounts Receivable	80
Intergovernmental Receivable	277,075
Depreciable Capital Assets, Net	<u>144,051</u>
<i>Total Assets</i>	<u>1,265,250</u>
Deferred Outflows of Resources	
Pension	<u>1,294,723</u>
Liabilities	
Accounts Payable	162,698
Accrued Wages Payable	327,550
Intergovernmental Payable	84,965
Matured Compensated Absences Payable	5,383
Long-Term Liabilities:	
Due Within One Year	44,555
Due In More Than One Year:	
Net Pension Liability (See Note 13)	9,308,648
Other Amounts	<u>135,848</u>
<i>Total Liabilities</i>	<u>10,069,647</u>
Deferred Inflows of Resources	
Pension	<u>664,769</u>
Net Position	
Investment in Capital Assets	144,051
Restricted for:	
Staff Development	53,032
Other Purposes	12,055
Unrestricted (Deficit)	<u>(8,383,581)</u>
<i>Total Net Position</i>	<u><u>(\$8,174,443)</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, 2016

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities				
Instruction:				
Regular	\$189,854	\$0	\$0	(\$189,854)
Special	3,529,587	5,536,049	156,531	2,162,993
Support Services:				
Pupils	807,970	0	43,567	(764,403)
Instructional Staff	223,293	0	25,000	(198,293)
Board of Education	22,684	0	0	(22,684)
Administration	917,122	0	0	(917,122)
Fiscal	84,492	0	0	(84,492)
Operation and Maintenance of Plant	23,688	0	0	(23,688)
Central	13,831	0	0	(13,831)
Extracurricular Activities	3,644	5,498	0	1,854
<i>Totals</i>	<u>\$5,816,165</u>	<u>\$5,541,547</u>	<u>\$225,098</u>	<u>(49,520)</u>
		General Revenues		
		Grants and Entitlements not Restricted to Specific Programs		248,155
		Investment Earnings		2,086
		Miscellaneous		1,315
		<i>Total General Revenues</i>		<u>251,556</u>
		Change in Net Position		202,036
		<i>Net Position Beginning of Year</i>		<u>(8,376,479)</u>
		<i>Net Position End of Year</i>		<u><u>(\$8,174,443)</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$776,191	\$61,142	\$837,333
Accounts Receivable	80	0	80
Interfund Receivable	16,436	0	16,436
Intergovernmental Receivable	240,115	36,960	277,075
<i>Total Assets</i>	<u>\$1,032,822</u>	<u>\$98,102</u>	<u>\$1,130,924</u>
Liabilities			
Accounts Payable	\$162,698	\$0	\$162,698
Accrued Wages Payable	299,537	28,013	327,550
Interfund Payable	0	16,436	16,436
Intergovernmental Payable	80,522	4,443	84,965
Matured Compensated Absences Payable	5,383	0	5,383
<i>Total Liabilities</i>	<u>548,140</u>	<u>48,892</u>	<u>597,032</u>
Deferred Inflows of Resources			
Unavailable Revenue	153,228	12,477	165,705
Fund Balances			
Restricted	0	61,142	61,142
Unassigned (Deficit)	331,454	(24,409)	307,045
<i>Total Fund Balances</i>	<u>331,454</u>	<u>36,733</u>	<u>368,187</u>
<i>Total Liabilities, Deferred Inflows and Fund Balances</i>	<u>\$1,032,822</u>	<u>\$98,102</u>	<u>\$1,130,924</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, 2016*

Total Governmental Funds Balances	\$368,187
 <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.	144,051
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:	
Intergovernmental	12,477
Customer Services	<u>153,228</u>
Total	165,705
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.	6,711
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,294,723
Net Pension Liability	(9,308,648)
Deferred Inflows - Pension	<u>(664,769)</u>
Total	(8,678,694)
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(180,403)</u>
<i>Net Position of Governmental Activities</i>	<u><u>(\$8,174,443)</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$262,624	\$161,052	\$423,676
Interest	558	0	558
Tuition and Fees	118,467	0	118,467
Extracurricular Activities	0	5,498	5,498
Contributions and Donations	0	37,100	37,100
Customer Services	5,264,354	0	5,264,354
Miscellaneous	1,315	0	1,315
<i>Total Revenues</i>	<u>5,647,318</u>	<u>203,650</u>	<u>5,850,968</u>
Expenditures			
Current:			
Instruction:			
Regular	192,479	1,143	193,622
Special	3,463,398	145,229	3,608,627
Support Services:			
Pupils	770,966	28,849	799,815
Instructional Staff	183,922	29,096	213,018
Board of Education	22,684	0	22,684
Administration	862,607	0	862,607
Fiscal	85,084	0	85,084
Operation and Maintenance of Plant	24,518	0	24,518
Central	6,122	0	6,122
Extracurricular Activities	0	3,644	3,644
<i>Total Expenditures</i>	<u>5,611,780</u>	<u>207,961</u>	<u>5,819,741</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>35,538</u>	<u>(4,311)</u>	<u>31,227</u>
Other Financing Sources (Uses)			
Transfers In	0	3,747	3,747
Transfers Out	(3,747)	0	(3,747)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,747)</u>	<u>3,747</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	31,791	(564)	31,227
<i>Fund Balances Beginning of Year</i>	<u>299,663</u>	<u>37,297</u>	<u>336,960</u>
<i>Fund Balances End of Year</i>	<u><u>\$331,454</u></u>	<u><u>\$36,733</u></u>	<u><u>\$368,187</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, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$31,227
 <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. This is the amount by which depreciation expense exceeded capital outlay in the current period:	
Capital Asset Additions	4,437
Depreciation	<u>(28,531)</u>
Total	(24,094)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Intergovernmental	12,477
Customer Services	<u>153,228</u>
Total	165,705
 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.	
	(6,181)
 Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	
	568,331
 Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	
	(548,177)
 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.	
	<u>15,225</u>
 <i>Change in Net Position of Governmental Activities</i>	 <u><u>\$202,036</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fund Net Position

Internal Service Fund

June 30, 2016

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,711
Liabilities	
	<u>0</u>
Net Position	
Unrestricted	<u>\$6,711</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, 2016*

	<u>Insurance</u>
Operating Revenues	
Charges for Services	<u>\$16,724</u>
Operating Expenses	
Purchased Services	3,937
Claims	<u>20,496</u>
<i>Total Operating Expenses</i>	<u>24,433</u>
<i>Operating Loss</i>	(7,709)
Non-Operating Revenues	
Interest	<u>1,528</u>
Change in Net Position	(6,181)
<i>Net Position Beginning of Year</i>	<u>12,892</u>
<i>Net Position at End of Year</i>	<u><u>\$6,711</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, 2016

	<u>Insurance</u>
Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$16,724
Cash Payments for Goods and Services	(3,937)
Cash Payments for Claims	<u>(20,496)</u>
<i>Net Cash Used for Operating Activities</i>	(7,709)
Cash Flows from Investing Activities	
Interest on Investments	<u>1,528</u>
<i>Decrease in Cash and Cash Equivalents</i>	(6,181)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>12,892</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$6,711</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust	
	Wolfe Estate	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,994	\$87,027
Liabilities		
Undistributed Monies	0	\$87,027
Net Position		
Held in Trust for Scholarships	\$12,994	

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, 2016

	<u>Wolfe Estate</u>
Additions	
Interest	\$39
Deductions	<u>0</u>
<i>Change in Net Position</i>	39
<i>Net Position Beginning of Year</i>	<u>12,955</u>
<i>Net Position End of Year</i>	<u><u>\$12,994</u></u>

See accompanying notes to the basic financial statements

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Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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 231 full and part time non-certificated and 60 full and part time certificated teaching personnel, and 10 administrators who provide services to 8,106 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 below.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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, 2016*

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, 2016*

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred 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. The deferred outflows of resources related to pension are explained in Note 13.

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 and pension. 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 are reported on the government-wide statement of net position. (See Note 13)

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

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

Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2016, the Educational Service Center invested in STAR Ohio. 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 their 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 the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 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 2016 amounted to \$558, of which \$99 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, 2016

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.

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

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and net pension liability 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.

Pensions

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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 the Educational Service Center Board of Education delegated that authority by State statute.

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

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for student activities and daycare.

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, 2016*

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 2016, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the Educational Service Center’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies – in the context of the current governmental financial reporting environment – the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Educational Service Center’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The Educational Service Center’s participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The Educational Service Center incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Educational Service Center’s fiscal year 2016 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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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;
4. Bonds and other obligations of the State of Ohio or Ohio;
5. Time certificates of deposit or savings or deposit accounts including;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$582,381 of the Educational Service Center's bank balance of \$832,381 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the collateral securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Investments

As of June 30, 2016, 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>
Restricted for:			
Staff Development	\$0	\$54,032	\$54,032
Student Activities	0	7,110	7,110
Total Restricted	0	61,142	61,142
Unassigned (Deficit)	331,454	(24,409)	307,045
Total Fund Balances	<u>\$331,454</u>	<u>\$36,733</u>	<u>\$368,187</u>

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6 – Receivables

Receivables at June 30, 2016, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year. Intergovernmental receivables in governmental activities are due to customer services.

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 \$35 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. A reduction factor of 76.65 percent is then applied, due to a State budget reduction. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$11.00 times the school district's total student count and remits this amount to the Educational Service Center.

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

Note 8 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/2016
Governmental Activities				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	\$416,427	\$4,437	\$0	\$420,864
Less Accumulated Depreciation	(248,282)	(28,531) *	0	(276,813)
Governmental Activities Capital Assets, Net	<u>\$168,145</u>	<u>(\$24,094)</u>	<u>\$0</u>	<u>\$144,051</u>

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,324
Special	9,354
Support Services:	
Pupils	329
Instructional Staff	12,899
Administration	3,463
Fiscal	162
Total Depreciation Expense	<u><u>\$28,531</u></u>

Note 9 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2016 were as follows:

	Amount Outstanding 7/1/2015	Additions	Deletions	Amount Outstanding 6/30/2016	Amount Due in One Year
Governmental Activities:					
Compensated Absences	\$195,628	\$826	\$16,051	\$180,403	\$44,555
Net Pension Liability:					
SERS	3,452,728	260,618	0	3,713,346	0
STRS	4,490,897	1,104,405	0	5,595,302	0
Total Net Pension Liability	<u>7,943,625</u>	<u>1,365,023</u>	<u>0</u>	<u>9,308,648</u>	<u>0</u>
Total Long-Term Liabilities	<u><u>\$8,139,253</u></u>	<u><u>\$1,365,849</u></u>	<u><u>\$16,051</u></u>	<u><u>\$9,489,051</u></u>	<u><u>\$44,555</u></u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the general fund and public school preschool, alternative center preschool and miscellaneous federal grants special revenue funds. For additional information related to net pension liability see Note 13.

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 \$4,840 for services during fiscal year 2016. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

Knox County Educational Service Center

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For the Fiscal Year Ended June 30, 2016*

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 \$79,610 for services during fiscal year 2016. 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 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 2016, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

Workers' Compensation

For fiscal year 2016, 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, 2016

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, 2016, there is no claims liability in the fund. Changes in the fund’s claims liability amount in fiscal year 2015 and 2016 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>
2015	\$0	\$16,594	\$16,594	\$0
2016	0	20,496	20,496	0

Note 13 – Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions 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 liability represents the Educational Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability 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 this estimate 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 are financed; however, the Educational Service Center does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

Benefits	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; 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; 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 year 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.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$302,131 for fiscal year 2016. Of this amount, \$13,757 is reported as an intergovernmental payable.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
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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 retirement 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 St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 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, 11 percent of the 12 percent member rate goes to the DC Plan and 1 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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 that 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.

Knox County Educational Service Center

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For the Fiscal Year Ended June 30, 2016*

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, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center’s contractually required contribution to STRS was \$266,200 for fiscal year 2016. Of this amount, \$32,100 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, 2015, 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:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.06822300%	0.01846323%	
Proportion of the Net Pension Liability Current Measurement Date	0.06507680%	0.02024564%	
Change in Proportionate Share	-0.00314620%	0.00178241%	
Proportionate Share of the Net Pension Liability	\$3,713,346	\$5,595,302	\$9,308,648
Pension Expense	\$190,860	\$357,317	\$548,177

At June 30, 2016, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$59,792	\$255,075	\$314,867
Changes in proportion and differences between Center contributions and proportionate share of contributions	0	411,525	411,525
Center contributions subsequent to the measurement date	302,131	266,200	568,331
Total Deferred Outflows of Resources	\$361,923	\$932,800	\$1,294,723
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$123,035	\$402,408	\$525,443
Changes in proportion and differences between Center contributions and proportionate share of contributions	139,326	0	139,326
Total Deferred Inflows of Resources	\$262,361	\$402,408	\$664,769

\$568,331 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Knox County Educational Service Center

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For the Fiscal Year Ended June 30, 2016*

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$89,194)	\$12,072	(\$77,122)
2018	(89,194)	12,072	(77,122)
2019	(89,477)	12,072	(77,405)
2020	<u>65,296</u>	<u>227,976</u>	<u>293,272</u>
Total	<u>(\$202,569)</u>	<u>\$264,192</u>	<u>\$61,623</u>

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, 2015, are presented as follows:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

The long-term return expectation for the Pension Plan Investments has been determined 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 averaged 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 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 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 (7.75 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 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$5,149,076	\$3,713,346	\$2,504,342

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Schools District's net pension liability is expected to be significant.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	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 paid on fifth anniversary of retirement date.

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.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops best estimates 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	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes 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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not 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, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 7.75 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 (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$7,772,298	\$5,595,302	\$3,754,329

Note 14 – Postemployment Benefits

School Employees Retirement System

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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 2016, the Educational Service Center's surcharge obligation was \$34,359.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$34,359, \$49,650, and \$34,955, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio 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 Ohio. 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. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$15,922, respectively. The full amount has been contributed for 2016, 2015 and 2014.

Note 15 – Other Employee Benefits

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

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

Dental and vision insurance is provided through OME-RESA (See Note 12). An indemnity plan is available through Nationwide Insurance Company with monthly premiums of \$149.82 for single, \$345.50 for employee plus spouse, \$255.80 for employee plus child, and \$371.32 for family coverage.

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, 2016.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

School Foundation

Educational Service Center funding is based on the annualized full-time equivalent (FTE) enrollment of each student within the local school districts served. Effective for fiscal year 2015, traditional public schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Educational Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable or a liability of the Educational Service Center.

Litigation

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

Note 17 – Interfund Transactions

Interfund Balance

The interfund receivable of \$16,436 in general fund represents advances to other governmental funds to offset deficit cash at June 30, 2016.

Interfund Transfers

During fiscal year 2016, the general fund transferred \$3,747 to the other federal grants fund to support operations in that fund.

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 \$112,463 and 713 in the general fund and other governmental funds, respectively.

Note 19 – Accountability

At June 30, 2016, the Educational Service Center had deficit fund balances of \$8,442, \$2,899, \$4,936, \$7,192, and \$940 in the public school preschool grant, alternative center grant, other state grants, preschool grant, and other federal grants special revenue funds, respectively. The special revenue funds' deficits resulted from adjustments for accrued liabilities. 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
School Employees Retirement System of Ohio
*Last Three Fiscal Years (1) **

	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.06507680%	0.06822300%	0.06822300%
Educational Service Center's Proportionate Share of the Net Pension Liability .	\$3,713,346	\$3,452,728	\$4,057,003
Educational Service Center's Covered Payroll	\$1,962,614	\$2,005,885	\$1,926,145
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.20%	172.13%	210.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

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 Three Fiscal Years (1) **

	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.02024564%	0.01846323%	0.01846323%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$5,595,302	\$4,490,897	\$5,349,527
Educational Service Center's Covered Payroll	\$2,176,450	\$1,929,836	\$2,095,262
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	257.08%	232.71%	255.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

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

	2016	2015	2014
Contractually Required Contribution	\$302,131	\$258,673	\$278,016
Contributions in Relation to the Contractually Required Contribution	(302,131)	(258,673)	(278,016)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll	\$2,158,079	\$1,962,614	\$2,005,885
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008	2007
\$266,578	\$246,200	\$244,104	\$247,998	\$184,384	\$157,632	\$175,700
(266,578)	(246,200)	(244,104)	(247,998)	(184,384)	(157,632)	(175,700)
\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$1,926,145	\$1,830,480	\$1,941,956	\$1,831,596	\$1,873,817	\$1,605,218	\$1,645,131
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$266,200	\$304,703	\$250,879
Contributions in Relation to the Contractually Required Contribution	<u>(266,200)</u>	<u>(304,703)</u>	<u>(250,879)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll	\$1,901,429	\$2,176,450	\$1,929,836
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008	2007
\$272,384	\$275,860	\$271,119	\$291,758	\$287,320	\$294,358	\$346,282
(272,384)	(275,860)	(271,119)	(291,758)	(287,320)	(294,358)	(346,282)
\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2,095,262	\$2,122,000	\$2,085,531	\$2,244,292	\$2,210,154	\$2,264,292	\$2,663,708
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$262,624	
Interest			568	
Tuition and Fees			118,467	
Customer Services			5,264,562	
Miscellaneous			585	
<i>Total Revenues</i>			<u>5,646,806</u>	
Expenditures				
Current:				
Instruction:				
Regular	273,987	278,095	238,084	40,011
Special	3,887,977	3,946,260	3,378,496	567,764
Support Services:				
Pupils	865,459	878,433	752,049	126,384
Instructional Staff	251,333	255,101	218,399	36,702
Board of Education	27,071	27,476	23,523	3,953
Administration	1,035,685	1,051,211	899,969	151,242
Fiscal	104,581	106,149	90,877	15,272
Operation and Maintenance of Plant	27,920	28,338	24,261	4,077
Central	11,238	11,406	9,765	1,641
<i>Total Expenditures</i>	<u>6,485,251</u>	<u>6,582,469</u>	<u>5,635,423</u>	<u>947,046</u>
<i>Net Change in Fund Balance</i>	(6,485,251)	(6,582,469)	11,383	
<i>Fund Balance Beginning of Year</i>			<u>668,781</u>	
<i>Fund Balance End of Year</i>			<u><u>\$680,164</u></u>	

See accompanying notes to the supplemental information

Knox County Educational Service Center
Notes to the Additional Supplementary Information
For the Fiscal Year Ended June 30, 2016

Note 1 – Budgetary Basis of Accounting

Budgetary Process

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

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center’s Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board. During the year, several supplemental appropriations were enacted, which represented the appropriation of available resources. The budget figures, which appear in the schedule of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

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

Net Change in Fund Balance General Fund	
	General
GAAP Basis	\$31,791
Net Adjustment for Revenue Accruals	(512)
Net Adjustment for Expenditure Accruals	92,567
Encumbrances	(112,463)
Budget Basis	\$11,383

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Dave Yost • Auditor of State

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

Knox County Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43080

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, Ohio (the Educational Service Center) as of and for the year ended June 30, 2016, 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 March 27, 2017.

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) 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 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. 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 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 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*.

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 communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 27, 2017



Dave Yost • Auditor of State

KNOX COUNTY EDUCATIONAL SERVICE CENTER

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2017**