

**EDUCATIONAL SERVICE CENTER  
KNOX COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**

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## REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education  
Educational Service Center  
Knox County  
106 East High Street  
Mt. Vernon, Ohio 43050

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Knox County, Ohio (the Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.


We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 1999, and the results of its operations and the cash flows of its nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 1999 on our consideration of the Centers's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

As described in Note 3, the Center has implemented *Government Accounting Standards Board Statement number 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans"*.



**JIM PETRO**  
Auditor of State

December 3, 1999

**Knox County Educational Service Center**  
**Combined Balance Sheet**  
**All Funds Types and Account Groups**  
**For the Fiscal Year Ended June 30, 1999**

Account Description	General Fund	Special Revenue	Trust and Agency
<b>Assets and Other Debits:</b>			
Equity in Pooled Cash and Cash Equivalents	\$896,344	\$118,612	\$115,186
Receivables:			
Intergovernmental	103,390	9,000	0
Fixed Assets:			
Fixed Assets	0	0	0
Other Debits:			
Provided from General Government Resources	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$999,734</b>	<b>\$127,612</b>	<b>\$115,186</b>
<b>Liabilities</b>			
Accounts Payable	\$1,509	\$0	\$0
Accrued Wages and Benefits	154,975	12,438	0
Compensated Absence Payable	16,132	0	0
Intergovernmental Payable	192,957	7,161	0
Undistributed Monies	0	0	105,266
<b>Total Liabilities</b>	<b>365,573</b>	<b>19,599</b>	<b>105,266</b>
<b>Fund Equity and Other Credits</b>			
Investment in General Fixed Assets	0	0	0
Fund Balances:			
Reserved:			
Reserved for Endowment	0	0	9,081
Reserved:			
Reserved for Encumbrances	184,502	15,178	0
Unreserved:			
Unreserved, Undesigned	449,659	92,835	839
<b>Total Fund Equity and Other Credits</b>	<b>634,161</b>	<b>108,013</b>	<b>9,920</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$999,734</b>	<b>\$127,612</b>	<b>\$115,186</b>

See accompanying notes to the general purpose financial statements

**Knox County Educational Service Center**  
**Combined Balance Sheet**  
**All Funds Types and Account Groups**  
**For the Fiscal Year Ended June 30, 1999**

<u>General Fixed Assets</u>	<u>General Long- Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$1,130,142
0	0	112,390
106,153	0	106,153
<u>0</u>	<u>45,204</u>	<u>45,204</u>
<u>\$106,153</u>	<u>\$45,204</u>	<u>\$1,393,889</u>
\$0	\$0	1,509
0	0	167,413
0	24,769	40,901
0	20,435	220,553
<u>0</u>	<u>0</u>	<u>105,266</u>
<u>0</u>	<u>45,204</u>	<u>535,642</u>
106,153	0	106,153
0	0	9,081
0	0	199,680
<u>0</u>	<u>0</u>	<u>543,333</u>
<u>106,153</u>	<u>0</u>	<u>858,247</u>
<u>\$106,153</u>	<u>\$45,204</u>	<u>\$1,393,889</u>

**Knox County Educational Service Center**  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Fund Types  
 For the Fiscal Year Ended June 30, 1999

Account Description	General	Special Revenue	Totals (Memorandum Only)
<b>Revenues (Governmental):</b>			
Intergovernmental	\$1,214,755	\$337,834	\$1,552,589
Interest	47,826	0	47,826
Tuition and Fees	117,861	0	117,861
Extracurricular Activities	0	13,682	13,682
Gifts and Donations	0	5,500	5,500
Customer Services	1,244,626	0	1,244,626
Miscellaneous	21,781	0	21,781
<b>Total Revenues</b>	<b>2,646,849</b>	<b>357,016</b>	<b>3,003,865</b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,823	29,532	35,355
Special	1,491,779	8,849	1,500,628
Adult/Continuing	42,839	30,785	73,624
Support Services:			
Pupils	393,527	90,030	483,557
Instructional Staff	309,219	150,535	459,754
Board of Education	14,658	0	14,658
Administration	164,557	2,051	166,608
Fiscal	58,635	9,374	68,009
Operation and Maintenance of Plant	16,822	1,468	18,290
Pupil Transportation	0	0	0
Central	1,090	0	1,090
Non-Instructional Services	1,869	0	1,869
Extracurricular Activities	0	7,715	7,715
<b>Total Expenditures</b>	<b>2,500,818</b>	<b>330,339</b>	<b>2,831,157</b>
Excess of Revenues Over (Under) Expenditures	146,031	26,677	172,708
Fund Balances Beginning of Year	488,130	81,336	569,466
Fund Balances End of Year	<b>\$634,161</b>	<b>\$108,013</b>	<b>\$742,174</b>

See accompanying notes to the general purpose financial statements

**Knox County Educational Service Center**  
 Combined Statement of Revenues, Expenditures  
 and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
 All Governmental Fund Types  
 For the Fiscal Year Ended June 30, 1999

	General		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Intergovernmental	\$1,219,404	\$1,219,404	\$0
Interest	47,826	47,826	0
Tuition and Fees	117,903	117,903	0
Extracurricular	0	0	0
Gifts and Donations	0	0	0
Customer Services	1,202,415	1,202,415	0
Miscellaneous	21,678	21,678	0
<b>Total Revenues</b>	<u>2,609,226</u>	<u>2,609,226</u>	<u>0</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	17,651	5,823	11,828
Special	1,609,245	1,582,950	26,295
Adult/Continuing	50,038	43,693	6,345
Support Services:			
Pupils	416,341	406,389	9,952
Instructional Staff	377,564	328,548	49,016
Board of Education	23,944	14,658	9,286
Administration	308,767	176,251	132,516
Fiscal	69,831	58,687	11,144
Operation and Maintenance of Plant	22,121	16,749	5,372
Pupil Transportation	500	0	500
Central	2,000	1,090	910
Operation of Non-Instructional Services	2,000	1,869	131
Extracurricular Activities	0	0	0
<b>Total Expenditures</b>	<u>2,900,002</u>	<u>2,636,707</u>	<u>263,295</u>
Excess of Revenues Over (Under) Expenditures	<u>(290,776)</u>	<u>(27,481)</u>	<u>263,295</u>
<b>Other Financing Sources (Uses)</b>			
Refund of Prior Year Expenditures	102	102	0
<b>Total Other Financing Sources (Uses)</b>	<u>102</u>	<u>102</u>	<u>0</u>
Excess of Revenues and Other Financing Sources			
Over (Under) Expenditures and Other Financing Uses	(290,674)	(27,379)	263,295
Fund Balances Beginning of Year	562,315	562,315	0
Prior Year Encumbrances Appropriated	176,904	176,904	0
Fund Balances at End of Year	<u>\$448,545</u>	<u>\$711,840</u>	<u>\$263,295</u>

See accompanying notes to the general purpose financial statements

Special Revenue			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$328,834	\$328,834	\$0	\$1,548,238	\$1,548,238	\$0
0	0	0	47,826	47,826	0
0	0	0	117,903	117,903	0
13,682	13,682	0	13,682	13,682	0
5,500	5,500	0	5,500	5,500	0
0	0	0	1,202,415	1,202,415	0
0	0	0	21,678	21,678	0
<u>348,016</u>	<u>348,016</u>	<u>0</u>	<u>2,957,242</u>	<u>2,957,242</u>	<u>0</u>
40,924	38,399	2,525	58,575	44,222	14,353
16,412	8,850	7,562	1,625,657	1,591,800	33,857
45,542	30,785	14,757	95,580	74,478	21,102
100,774	93,034	7,740	517,115	499,423	17,692
186,143	155,294	30,849	563,707	483,842	79,865
0	0	0	23,944	14,658	9,286
2,898	2,477	421	311,665	178,728	132,937
10,667	4,273	6,394	80,498	62,960	17,538
1,468	1,468	0	23,589	18,217	5,372
0	0	0	500	0	500
49	0	49	2,049	1,090	959
0	0	0	2,000	1,869	131
9,270	7,715	1,555	9,270	7,715	1,555
<u>414,147</u>	<u>342,295</u>	<u>71,852</u>	<u>3,314,149</u>	<u>2,979,002</u>	<u>335,147</u>
<u>(66,131)</u>	<u>5,721</u>	<u>71,852</u>	<u>(356,907)</u>	<u>(21,760)</u>	<u>335,147</u>
0	0	0	102	102	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>102</u>	<u>102</u>	<u>0</u>
(66,131)	5,721	71,852	(356,805)	(21,658)	335,147
86,521	86,521	0	648,837	648,837	0
11,192	11,192	0	188,095	188,095	0
<u>31,582</u>	<u>103,434</u>	<u>71,852</u>	<u>480,127</u>	<u>815,274</u>	<u>335,147</u>



**Knox County Educational Service Center**  
Statement of Revenues, Expenses and Changes in Fund Balance  
Non Expendable Trust Fund  
For the Fiscal Year Ended June 30, 1999

	Non-Expendable Trust
<b>Operating Revenues</b>	
Interest	\$440
<b>Expenses</b>	0
Net Income (Loss)	440
Fund Balance at Beginning of Year	9,480
Fund Balance at End of Year	<u>\$9,920</u>

See accompanying notes to the general purpose financial statements

**Knox County Educational Service Center**  
Statement of Cash Flows  
Non Expendable Trust Fund  
For the Fiscal Year Ended June 30, 1999

	<u>Non-Expendable Trust</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	\$440
Net Increase in Cash and Cash Equivalents	440
Cash and Cash Equivalents Beginning of Year	9,480
Cash and Cash Equivalents End of Year	\$9,920
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$440
Adjustments:	
Interest Received by Nonexpendable Trust Fund	(440)
Net Cash Provided by Operating Activities	\$0
 <b>Reconciliation of Cash and Cash Equivalents to the Balance Sheet</b>	
Trust and Agency	\$115,186
Less: Agency	105,266
Nonexpendable Trust Fund	\$9,920

See accompanying notes to the general purpose financial statements

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 1999**

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**Note 1 - Description of the Knox County Educational Service Center**

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 or federal agencies. The Board controls the Educational Service Center's support facilities staffed by 46 noncertificated, 39 certificated teaching personnel, and seven administrators who provide services to 8,403 students and other community members.

*Reporting Entity*

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes. The Educational Service Center had no component units.

The Educational Service Center is associated with three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Note 16 and 17 to the general purpose financial statements. These organizations include the Knox County Career Center, Tri-Rivers Educational Computer Association, North Central Ohio Special Education Regional Resource Center 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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. *Basis of Presentation - Fund Accounting*

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

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A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources and the related current liabilities (except those accounted for in the proprietary fund) are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency.

Nonexpendable Trust Fund - The nonexpendable trust fund is used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The principal of the trust must be preserved intact.

Agency Funds - Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The Educational Service Center's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center except those accounted for in the trust fund.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the trust fund.

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 1999**

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*B. Measurement Focus and Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The nonexpendable trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund is included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants and customer services.

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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the nonexpendable trust fund. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*C. Budgetary Data*

The budgetary process is prescribed by section 3317.1 1 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County Educational Service Center. The State Board of Education reviews the budget.

Estimates Resources:

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Board.

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

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Appropriations:

The annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

*D. Cash and Cash Equivalents*

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Investments are reported at fair market value which is based on quoted market prices.

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 1999. STAROhio is an investment pool management by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

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 1999 amounted to \$47,826, which includes \$9,545 assigned from other Educational Service Center funds.

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 1999**

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For purposes of the statement of cash flows and for presentation on the combined balance sheet, 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 considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

*E. Inventory*

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Since the inventory balance at June 30, 1999 was not significant, an amount was not reported on the combined balance sheet.

*F. Intergovernmental Revenues*

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Entitlements are recorded as receivables and revenues in the period intended to finance. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Early Childhood Education Fund  
Management Information System Fund  
Public School Preschool Fund  
Entry Year Programs Funds  
Ohio Schoolnet Telecommunity Planning  
Title II, Eisenhower Math, Science and Technology  
Title VI-B Special Education: Assistant to States for Education of  
Handicapped Children Fund  
Handicapped Preschool Grant, Title VIB Fund  
Learn and Serve  
Training Ohio Parents (TOPS)  
Parent Mentor  
Delivery Services in Inclusive Settings  
Life Transitions for Continuous Improvement  
Head Start  
Special Education Transition Funding Plan

Grants and entitlements amounted to 51.7 percent of the Educational Service Center's governmental fund revenue during the 1999 fiscal year.

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

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*G. Pass-Through Grants*

The Educational Service Center is the primary recipient of grants which are passed-through to or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local district in the County are reported in an agency fund.

*H. Fixed Assets*

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

The costs of normal maintenance and repairs do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Assets in the general fixed assets account group are not depreciated.

*I. Compensated Absences*

The Educational Service Center reports compensated absences in accordance with the Provisions of GASB Statement No. 16, "Accounting for 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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time 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 sick leave is made to the extent 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.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

*J. Accrued Liabilities and Long-Term Obligations*

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, payments made more than sixty days after year end are considered not to have been made with current available financial resources.



**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
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**K. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**L. Fund Balance Reserves**

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and for the endowment which cannot be spent in the nonexpendable trust fund.

**M. Estimates**

The preparation of the 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.

**N. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**Note 3 - Change in Accounting Principle and Prior Period Adjustment**

For fiscal year 1999, the Educational Service Center has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employees Deferred Compensation Plan (OPEDCP). On September 1, 1998, the OPEDCP created a trust for the assets of the plan for which the Educational Service Center has no fiduciary responsibility. Therefore, the balance of the OPEDCP is no longer presented as part of the Educational Service Center's financial statements.

The fund structure for the Educational Service Center was re-evaluated. This had the following affect on excess of revenues over expenditures as previously reported for the year ended June 30, 1998 are as follows:

	<u>Special Revenue</u>
Excess as Previously Reported	\$33,062
Fund Structure	( 12,985)
Restated excess for the fiscal year ended June 30, 1998	<u>\$20,077</u>

These changes also had the following effects on fund balance as previously reported as of June 30, 1998.

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
**For the Fiscal Year Ended June 30, 1999**

	<u>Special Revenue</u>
Fund Balance as previously reported	\$94,321
Fund Structure	( <u>12,985</u> )
Restated Fund Balance for the fiscal year ended June 30, 1998	<u>\$81,336</u>

Agency fund assets and liabilities were also increased by \$12,985 from \$441,595 to 454,580.

**Note 4 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual, All Governmental Fund Types are 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for government fund types and note disclosure in the proprietary fund type (GAAP basis).
4. Activity for the Non Expendable Trust Fund is not required to be budgeted, therefore no reconciliation is shown.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types	
	<u>General</u>	<u>Special Revenue</u>
GAAP Basis	\$146,031	\$26,677
Net Adjustment for Revenue Accruals	( 37,521 )	( 9,000 )
Net Adjustments for Expenditure Accruals	48,615	3,223
Adjustments for Encumbrances	( <u>184,502</u> )	( <u>15,178</u> )
Budget Basis	<u>(\$27,379)</u>	<u>\$5,721</u>

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

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**Note 5 - Deposits and Investment**

State statutes classify monies held by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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 pass book accounts.

Protection of Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Interim monies may 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by a least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
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7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements."

**Deposits** At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$268,763 and the bank balance was \$449,736. \$100,000 of the bank balance was covered by federal depository insurance. \$349,736 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the FDIC.

**Investments** The Educational Service Center's investments are required to be categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. StarOhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
StarOhio (Investment in State Treasurer's Pool)	\$861,379

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental entities that use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

**Knox County Educational Service Center**  
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	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,130,142	0
Investments which are part of a cash management pool: STAROhio	<u>(861,379)</u>	<u>861,379</u>
GASB Statement 3	<u>\$268,763</u>	<u>\$861,379</u>

**Note 6 - Receivables**

Receivables at June 30, 1999, consisted of intergovernmental monies. All receivables are considered collectible because of the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
Customer Services	\$78,401
Tuition	14,756
CAFS	10,233
Total General Fund	103,390
Other Grants Special Revenue	<u>9,000</u>
Total Intergovernmental Receivables	<u>\$112,390</u>

**Note 7 - State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. (For an explanation of the budget, see Note 2 - Budgetary Data.)

Part (B) of the budget is funded by the State Board of Education from State funds and participating School Districts. The Educational Service Center receives \$38.50 per student for part (B) funding. Six dollars and fifty cents times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local School District's to which the Educational Service Center provides services. These payments are made and received through the State's foundation program. Simultaneously, thirty-two dollars times the sum of the ADM is paid by the State Board of Education from State funds to the County Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$38.50 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation payments. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

**Note 8 - Fixed Assets**

A summary of the changes in general fixed assets during fiscal year 1999 follows:

	<u>Balance</u> <u>7/1/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/99</u>
Furniture & Equipment	\$83,315	\$22,838	\$0	\$106,153

**Note 9 - Risk Management**

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 1999, the Educational Service Center contracted with Nationwide Insurance Company for property and general liability insurance.

Professional liability is protected by the Nationwide Insurance Company with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Nonowned Auto Insurance \$100,000., this includes autos owned by employees of the Knox County Educational Service Center, while they are on school business, it covers after their own insurance pays. No claims have been made. 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.

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**Note 10 - Defined Benefit Pension Plans**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
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pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$34,885, \$47,441, and \$44,275, respectively; 100 percent has been contributed for fiscal years 1999, 1998, and 1997.

***B. State Teachers Retirement System***

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$81,719, \$153,703, and \$165,541, respectively; nothing has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$81,719 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

**Note 11 - Postemployment Benefits**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$108,959 for fiscal year 1999 and is recorded as a liability within the respective funds.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year end June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

**Knox County Educational Service Center**  
**Notes to the General Purpose Financial Statements**  
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For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$28,542.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**Note 12 - 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 to 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 45 days. Any employee receiving such payment must meet the requirement provisions set by STRS or SERS.

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

Health Insurance is provided through Medical Benefits Administrators, Inc. The Governing Board pays 100% of the premium. Yearly deductibles for individual is \$100 and yearly family deductible is \$300. After the deductible is paid, in-network pays 90% of the first \$5,000. of covered expenses and 100% thereafter. Out-of-Network is 80% of first \$5,000 of covered expenses.

**Note 13 - Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center during fiscal year 1999, were as follows:

	Outstanding <u>6/30/98</u>	Additions	Deductions	Outstanding <u>6/30/99</u>
Compensated Absences	\$27,610	\$ 85	(\$ 2,926)	\$24,769
Intergovernmental Payable	<u>25,173</u>	<u>20,435</u>	( <u>25,173</u> )	<u>20,435</u>
<i>Total General Long-Term Obligations</i>	<u>\$52,783</u>	<u>\$20,520</u>	<u>( \$28,099 )</u>	<u>\$45,204</u>



**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 1999

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Compensated absences will be paid from the fund from which the employee is paid. The intergovernmental payable represents pension obligations paid outside the available period and will be paid from the fund from which the person is paid.

**Note 14 - Contingencies**

*A. 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 is 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, 1999.

*B. Litigation*

The Educational Service Center is not party to legal proceedings.

**Note 15 - State School Funding Decision**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amount of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,198,896 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined that they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of these financial statements, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program on its financial operations.

**Note 16 - Jointly Governed Organizations**

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 1999. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

The Tri-Rivers Educational Computer Association (TRECA) is jointly governed organization among 31 member districts. TRECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the

**Knox County Educational Service Center**  
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governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the members districts. The degree of control exercised by any participating school district is limited to its representation on the board. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

North Central Ohio Special Education Regional Resource Center (NCO/SERRC) - NCO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NCO/SERRC is governed by a governing board of 47 members made up of representatives from 42 superintendents of the participating districts, one representative from area colleges and university branches, one representative of the County 169 programs, two parents of children with disabilities, and one non-public representative. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Knox County Educational Service Center, 106 East High Street, Mount Vernon, Ohio, 43050.

**Note 17 - Insurance Purchasing Pool**

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 participates pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 - Year 2000 Compliance**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal year 1999.

The Educational Service Center has completed an inventory of computer systems and other equipment necessary to conducting Educational Service Center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information system (EMIS)).

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The Northwest Ohio Computer Association State Software Development Team states that,

"The payroll processing software supported with the OECN State Software is compliant with the Year 2000, beginning with the September 1997 release of USPS 4V.0.

The accounting software supported with the OECN State Software is compliant with the Year 2000, beginning with the June 1998 release of USAS V6.1.

The equipment inventory and vehicle inventory system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the December 1998 release of SAAS V2.0.

**Knox County Educational Service Center**  
Notes to the General Purpose Financial Statements  
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The education management information system software supported with the OECN State Software will be compliant with the Year 2000, beginning with the September 1998 release of EMIS V1.7.”

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of “Foundation” payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through the State’s Educational Management and Information System (EMIS). The State is responsible for remediating these systems.

The State is solely responsible for any costs associated with the foundation processing and EMIS systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Educational Service Center is or will be Year 2000 ready, that the Educational Service Center’s remediation efforts will be successful in whole or in part, or that the parties with whom the Educational Service Center does business will be year 2000 ready.

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<b><u>U.S. Department of Education</u></b>				
Passed Through the Ohio Department of Education				
Special Education Cluster:				
Grants to States	84.027	6B-SI-98P	\$455,638	\$378,126
Title VI-B		6B-II-97P	23,275	31,605
		6B-SI-98	40,000	165,132
		N/A	3,500	2,945
		N/A	0	419
		6B-SI-97P	0	113
		N/A	0	19
		N/A	0	484
			<u>522,413</u>	<u>578,843</u>
Pre-School Grants	84.173	PG-S1-98P	24,336	20,053
Title VI-B		PG-S3-97P	0	15,308
		PG-S3-98P	71,000	54,907
		PG-S7-98	10,000	8,169
		PG-S1-97	0	3,827
		PG-S3-97	0	6,570
			<u>105,336</u>	<u>108,834</u>
Total Special Education Cluster			627,749	687,677
Special Education - Personal Development and Parenting Training	84.029	PD-A1-98	0	9,157
Eisenhower Professional Development State Grants	84.281	MS-S1-98P	15,958	13,952
		MS-S1-99	15,958	0
		N/A	0	1,754
			<u>31,916</u>	<u>15,706</u>
Secondary Education and Transitional Services for Youth and Disabilities	84.158A	PF-S1-98P	6,000	6,000
Total U.S. Department of Education			665,665	718,540
<b><u>U.S. Corporation for National and Community Service</u></b>				
Passed Through the Ohio Department of Education				
Learn and Serve America - School and Community Based	94.004	SV-S1-99	15,000	8,007
<b><u>U.S. Department of Human Services</u></b>				
Passed Through Ohio Department of Mental Retardation and Developmental Disabilities				
Family Support Payments to States - Assistance Payments	93.560	N/A	88,747	45,135
<b>Total Federal Financial Assistance</b>			<b><u>\$769,412</u></b>	<b><u>\$771,682</u></b>

See accompanying notes to schedule of federal awards expenditures

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 1999**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -- MATCHING REQUIREMENTS**

Certain Federal programs require that the Government contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
Educational Service Center  
Knox County  
106 East High Street  
Mt. Vernon, Ohio 43050

We have audited the general-purpose financial statements of the Educational Service Center, Knox County Ohio, (the Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 3, 1999, wherein we noted the Center changed its accounting for the deferred compensation plan. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Center's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education  
Educational Service Center  
Knox County  
Report on Compliance and on Internal Control Required by  
*Government Auditing Standards*

This report is intended for the information of management, audit committee, Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", is written over the printed name and title.

**JIM PETRO**  
Auditor of State

December 3, 1999



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR  
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Educational Service Center  
Knox County  
106 East High Street  
Mt. Vernon, Ohio 43050

**Compliance**

We have audited the compliance of the Educational Service Center, Knox County, Ohio, (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 1999. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.



### Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, audit committee, Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**JIM PETRO**  
Auditor of State

December 3, 1999

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 1999**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster, CFDA # 84.027 & 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None



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OFFICE OF THE AUDITOR  
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**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.

By: *Susan Babbitt*  
Clerk of the Bureau

Date: **JAN 06 2000**