



Mary Taylor, CPA
Auditor of State

**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets.....	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Fund Net Assets – Internal Service Fund	17
Statement of Revenue, Expenses, and Changes in Fund Net Assets Internal Service Fund	18
Statement of Cash Flows – Internal Service Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund.....	21
Notes to the Basic Financial Statements.....	23
Supplemental Information: Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	39
Notes to the Supplemental Information	40
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	43

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Service Center Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio (the Center), as of and for the year ended June 30, 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Knox County, Ohio, as of June 30, 2009, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2009, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basis financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Budgetary Comparison for the General Fund provides additional information and is not a required part of the basic financial statements. We subjected the Budgetary Comparison for the General Fund to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 17, 2009

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
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, 2009. 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 2009 are as follows:

- Health insurance for the Educational Service Center's employees is now provided through a self-insurance program. This increased the cost of insurance for fiscal year 2009, but once a reserve is built up it is anticipated that there will be a cost savings to both the Educational Service Center and its employees.
- All employees received a three percent wage increase for fiscal year 2009.
- Through a 21st Century grant, a new computer lab was installed and new software was purchased for the Alternative Center. This new computer lab provides services for students who cannot attend a traditional high school.
- Supplies and equipment were purchased for two new preschool units at School Districts served by the Educational Service Center.

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 Assets 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 general fund is the most significant fund.

Reporting the Educational Service Center as a Whole

Statement of Net Assets 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 2009?" The *Statement of Net Assets* and *Statement of Activities* answer this question. These statements include all assets and liabilities 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, 2009
Unaudited*

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets 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 Assets and the Statement of Activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund

The School District maintains a 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 medical self insurance. The proprietary 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, 2009
Unaudited

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2009 compared to 2008:

Table 1
Net Assets
Governmental Activities

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Assets			
Current and Other Assets	\$1,174,194	\$1,524,216	(\$350,022)
Capital Assets, Net	<u>188,132</u>	<u>98,895</u>	<u>89,237</u>
<i>Total Assets</i>	<u>1,362,326</u>	<u>1,623,111</u>	<u>(260,785)</u>
Liabilities			
Current Liabilities	605,892	457,848	148,044
Long-Term Liabilities:			
Due Within One Year	20,954	16,609	4,345
Due in More Than One Year	<u>83,814</u>	<u>66,438</u>	<u>17,376</u>
<i>Total Liabilities</i>	<u>710,660</u>	<u>540,895</u>	<u>169,765</u>
Net Assets			
Invested in Capital Assets	188,132	98,895	89,237
Restricted for:			
Safe and Drug Free Schools	24,059	24,059	0
Student Activities	1,309	3,603	(2,294)
Staff Development	28,078	22,993	5,085
Entry Year Programs	0	535	(535)
SchoolNet	75	75	0
Preschool for the Handicapped	0	913	(913)
Alternative Schools	69	1,405	(1,336)
Other Purposes	8,312	1,453	6,859
Unrestricted	<u>401,632</u>	<u>928,285</u>	<u>(526,653)</u>
<i>Total Net Assets</i>	<u>\$651,666</u>	<u>\$1,082,216</u>	<u>(\$430,550)</u>

The decrease in current assets was primarily due to a decrease in the Educational Service Center's cash balance. As expenditures outpaced revenues during the year, cash reserves were spent. This decrease is also reflected in the change in unrestricted net assets from 2008 to 2009.

Knox County Educational Service Center

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited

Table 2 shows revenues, expenses and changes in net assets for fiscal years 2009 and 2008.

Table 2
Changes in Net Assets
Governmental Activities

	2009	2008	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$4,429,846	\$4,378,832	\$51,014
Operating Grants and Contributions	1,071,629	1,065,222	6,407
Total Program Revenues	5,501,475	5,444,054	57,421
General Revenues:			
Grants and Entitlements	291,239	284,869	6,370
Investment Earnings	18,038	56,029	(37,991)
Miscellaneous	8,019	191	7,828
Total General Revenues	317,296	341,089	(23,793)
Total Revenues	5,818,771	5,785,143	33,628
Program Expenses			
Instruction:			
Regular	88,623	80,818	(7,805)
Special	4,121,181	3,719,665	(401,516)
Support Services:			
Pupils	579,411	537,993	(41,418)
Instructional Staff	923,896	916,610	(7,286)
Board of Education	28,032	25,893	(2,139)
Administration	352,467	322,742	(29,725)
Fiscal	91,091	100,440	9,349
Operation and Maintenance of Plant	51,248	51,447	199
Central	4,008	2,445	(1,563)
Extracurricular Activities	9,364	3,988	(5,376)
Total Program Expenses	6,249,321	5,762,041	(487,280)
Increase (Decrease) in Net Assets	(430,550)	23,102	(453,652)
<i>Net Assets Beginning of Year</i>	1,082,216	1,059,114	23,102
<i>Net Assets End of Year</i>	\$651,666	\$1,082,216	(\$430,550)

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited*

Governmental Activities

A review of Table 2 shows the Educational Service Center net assets decreased from fiscal year 2008. While revenues remained fairly consistent, expenditures increased significantly over 2008. This increase was due to the hiring of additional employees, including a speech supervisor, a preschool teacher and additional aids. Also contributing to the increase in expenditures was a three percent wage increase for all employees, increased supplies for professional development and the cost of the Board attending a national conference in San Diego.

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 2009	Net Cost of Services 2009	Total Cost of Services 2008	Net Cost of Services 2008
Governmental Activities:				
Instruction:				
Regular	\$88,623	(\$30,605)	\$80,818	(\$20,614)
Special	4,121,181	896,466	3,719,665	1,107,905
Support Services:				
Pupils	579,411	(579,411)	537,993	(537,993)
Instructional Staff	923,896	(508,156)	916,610	(367,810)
Board of Education	28,032	(28,032)	25,893	(25,893)
Administration	352,467	(349,467)	322,742	(319,742)
Fiscal	91,091	(91,091)	100,440	(100,440)
Operation and Maintenance of Plant	51,248	(51,248)	51,447	(51,447)
Central	4,008	(4,008)	2,445	(2,445)
Extracurricular Activities	9,364	(2,294)	3,988	492
Total	\$6,249,321	(\$747,846)	\$5,762,041	(\$317,987)

The Educational Service Center's Funds

Information regarding the Educational Service Center's governmental funds can be found on pages 13 - 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,818,771 and expenditures of \$6,351,477. General fund is the most significant and had the largest decrease in fund balance. This decrease was caused by increases in expenditures as previously explained.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
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 \$7,606,003, which was higher than the original estimate \$7,556,667.

The general fund's unencumbered ending cash balance totaled \$796,762 which was less than the beginning unencumbered cash balance of \$1,349,460. The Educational Service Center's actual expenditures were well below the amount that was appropriated.

Capital Assets

Table 4 shows fiscal 2009 values compared to 2008. More detailed information is presented in Note 7 to the basic financial statements.

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

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Furniture, Fixtures and Equipment	<u>\$188,132</u>	<u>\$98,895</u>	<u>\$89,237</u>

All capital assets are reported net of depreciation. As one can see, there was an increase in capital assets during the fiscal year. The Educational Service Center purchased computer software and hardware through a 21st Century grant to create a new computer lab for the Alternative Center.

Debt

At June 30, 2009 the Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences. For additional information on long-term liabilities, see Note 8 to the basic financial statements.

Knox County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited*

Current Related Financial Activities

The Knox County Educational Service Center is financially stable at the present time. The Governing Board and administration closely monitor revenues and expenditures in accordance with board policy.

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 HB 115, the Knox County Educational Service Center, as of July 1, 2007, no longer serves as the fiscal agent for the North Central Ohio Special Education Regional Resource Center (NCO-SERRC) and the NCO-SERRC is no longer in existence. The services provided by the NCO-SERRC became part of the services provided by the State Support Team Region 7 (SST) as of July 1, 2007. The Knox County Educational Service Center still holds some money in an agency fund for NCO-SERRC which will be spent by SST as expenses are incurred.

The Knox County Educational Service Center relies heavily on not only contracts with local districts, State foundation revenue, but grants and other revenue it is able to generate. The fact that educational service centers are not fully funded by the State, makes it imperative that the Knox County Education Service Center look for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local districts to improve their instructional programs and to develop school improvement strategies. The Educational Service Center has been able to secure grant funding in several areas that provide services and opportunities for students in the districts served by the Educational Service Center.

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

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Heather Darnold, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050, or email at Darnold_h@treca.org.

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Knox County Educational Service Center

Statement of Net Assets

June 30, 2009

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$949,097
Cash and Cash Equivalents With Fiscal Agents	185,510
Accounts Receivable	1,877
Intergovernmental Receivable	37,710
Depreciable Capital Assets, Net	<u>188,132</u>
<i>Total Assets</i>	<u>1,362,326</u>
Liabilities	
Accounts Payable	10,936
Accrued Wages Payable	337,584
Intergovernmental Payable	106,502
Claims Payable	150,870
Long-Term Liabilities:	
Due Within One Year	20,954
Due In More Than One Year	<u>83,814</u>
<i>Total Liabilities</i>	<u>710,660</u>
Net Assets	
Invested in Capital Assets	188,132
Restricted for:	
Safe and Drug Free Schools	24,059
Student Activities	1,309
Staff Development	28,078
SchoolNet	75
Alternative Schools	69
Other Purposes	8,312
Unrestricted	<u>401,632</u>
<i>Total Net Assets</i>	<u><u>\$651,666</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, 2009

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$88,623	\$0	\$58,018	(\$30,605)
Special	4,121,181	4,418,776	598,871	896,466
Support Services:				
Pupils	579,411	0	0	(579,411)
Instructional Staff	923,896	4,000	411,740	(508,156)
Board of Education	28,032	0	0	(28,032)
Administration	352,467	0	3,000	(349,467)
Fiscal	91,091	0	0	(91,091)
Operation and Maintenance of Plant	51,248	0	0	(51,248)
Central	4,008	0	0	(4,008)
Extracurricular Activities	9,364	7,070	0	(2,294)
<i>Totals</i>	<u>\$6,249,321</u>	<u>\$4,429,846</u>	<u>\$1,071,629</u>	<u>(747,846)</u>
		General Revenues		
		Grants and Entitlements not		
		Restricted to Specific Programs		291,239
		Investment Earnings		18,038
		Miscellaneous		8,019
		<i>Total General Revenues</i>		<u>317,296</u>
		Change in Net Assets		(430,550)
		<i>Net Assets Beginning of Year</i>		<u>1,082,216</u>
		<i>Net Assets End of Year</i>		<u>\$651,666</u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2009*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$848,839	\$100,258	\$949,097
Accounts Receivable	1,877	0	1,877
Interfund Receivable	6,323	0	6,323
Intergovernmental Receivable	30,014	7,696	37,710
<i>Total Assets</i>	<u>\$887,053</u>	<u>\$107,954</u>	<u>\$995,007</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$1,380	\$9,556	\$10,936
Accrued Wages Payable	309,635	27,949	337,584
Interfund Payable	0	6,323	6,323
Intergovernmental Payable	101,945	4,557	106,502
<i>Total Liabilities</i>	<u>412,960</u>	<u>48,385</u>	<u>461,345</u>
 Fund Balances			
Reserved for Encumbrances	47,220	4,628	51,848
Unreserved, Undesignated Reported in:			
General Fund	426,873	0	426,873
Special Revenue Funds	0	54,941	54,941
<i>Total Fund Balances</i>	<u>474,093</u>	<u>59,569</u>	<u>533,662</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$887,053</u>	<u>\$107,954</u>	<u>\$995,007</u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2009

Total Governmental Funds Balances	\$533,662
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	188,132
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 assets.	34,640
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(104,768)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$651,666</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, 2009

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$843,985	\$447,511	\$1,291,496
Interest	18,038	0	18,038
Tuition and Fees	310,296	0	310,296
Extracurricular Activities	0	7,070	7,070
Contributions and Donations	1,000	70,372	71,372
Customer Services	4,108,480	4,000	4,112,480
Miscellaneous	643	7,376	8,019
<i>Total Revenues</i>	<u>5,282,442</u>	<u>536,329</u>	<u>5,818,771</u>
Expenditures			
Current:			
Instruction:			
Regular	27,404	60,785	88,189
Special	4,082,994	57,954	4,140,948
Support Services:			
Pupils	586,164	898	587,062
Instructional Staff	599,383	400,001	999,384
Board of Education	28,032	0	28,032
Administration	351,130	3,000	354,130
Fiscal	89,112	0	89,112
Operation and Maintenance of Plant	51,248	0	51,248
Central	4,008	0	4,008
Extracurricular Activities	0	9,364	9,364
<i>Total Expenditures</i>	<u>5,819,475</u>	<u>532,002</u>	<u>6,351,477</u>
<i>Net Change in Fund Balances</i>	(537,033)	4,327	(532,706)
<i>Fund Balances Beginning of Year</i>	<u>1,011,126</u>	<u>55,242</u>	<u>1,066,368</u>
<i>Fund Balances End of Year</i>	<u>\$474,093</u>	<u>\$59,569</u>	<u>\$533,662</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, 2009*

Net Change in Fund Balances - Total Governmental Funds (\$532,706)

*Amounts reported for governmental activities in the
statement of activities are different because*

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

Capital Asset Additions	110,942
Depreciation	<u>(19,602)</u>

Total 91,340

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the net book value of the deleted capital assets. (2,103)

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. 34,640

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. (21,721)

Change in Net Assets of Governmental Activities (\$430,550)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fund Net Assets

Internal Service Fund

June 30, 2009

	<u>Insurance</u>
Assets	
Cash and Cash Equivalents With Fiscal Agents	\$185,510
Liabilities	
Claims Payable	<u>150,870</u>
Net Assets	
Unrestricted	<u><u>\$34,640</u></u>

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Revenues,

Expenses and Changes in Fund Net Assets

Internal Service Fund

For the Fiscal Year Ended June 30, 2009

	<u>Insurance</u>
Operating Revenues	
Charges for Services	<u>\$884,480</u>
Operating Expenses	
Purchased Services	183,756
Claims	<u>666,084</u>
<i>Total Operating Expenses</i>	<u>849,840</u>
Change in Net Assets	34,640
<i>Net Assets Beginning of Year</i>	<u>0</u>
<i>Net Assets End of Year</i>	<u><u>\$34,640</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, 2009

	<u>Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund	
Services Provided	\$884,480
Cash Payments for Goods and Services	(183,756)
Cash Payments for Claims	<u>(515,214)</u>
<i>Increase in Cash and Cash Equivalents</i>	185,510
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$185,510</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$34,640
Adjustments:	
Increase in Claims Payable	<u>150,870</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$185,510</u></u>
See accompanying notes to the basic financial statements	

Knox County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

	Private Purpose Trust	
	Wolfe Estate	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,899	<u>\$128,976</u>
Liabilities		
Undistributed Monies	<u>0</u>	<u>\$128,976</u>
Net Assets		
Held in Trust for Scholarships	<u>\$12,899</u>	

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2009

	<u>Wolfe Estate</u>
Additions	
Interest	\$158
Deductions	
	<u>0</u>
<i>Change in Net Assets</i>	158
<i>Net Assets Beginning of Year</i>	<u>12,741</u>
<i>Net Assets End of Year</i>	<u><u>\$12,899</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, 2009*

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 43 non-certificated and 41 certificated teaching personnel, and 10 administrators who provide services to 8,756 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 has no component units.

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

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 and interpretations issued on or before November 30, 1989, to its governmental activities and internal service fund provided they do not conflict with or contradict GASB pronouncements. 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, 2009*

A. Basis of Presentation

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

B. 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 liabilities 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, 2009*

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.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, 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 is a self insurance that accounts for medical, surgical and prescription drug claims for Educational Service Center employees.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. 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 the North Central Ohio Special Education Regional Resource Center (NCO-SERRC). In fiscal year 2009, the services formerly provided by the NCO-SERRC were 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.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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 assets. The statement of changes in fund net assets presents increases (i.e.,

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

revenues) and decreases (i.e., expenses) in net total assets. 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.

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

D. 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 revenue, 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 Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

E. 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 2009, the Educational Service Center invested in STAROhio, an investment pool managed 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, 2009.

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 2009 amounted to \$18,038, which includes \$4,543 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.

The Educational Service Center participates in the OME-RESA insurance consortium for self-insurance. These monies are reflected on statement of net assets as "cash and cash equivalents with fiscal agents." The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium.

F. 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 assets but are not reported in the fund financial statements.

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

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

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

G. 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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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.

H. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

I. Interfund Activity

Transfers between governmental funds are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

J. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for staff development and safe and drug free schools.

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

M. 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 – Change in Accounting Principles

For fiscal year 2009, the Educational Service Center has implemented Governmental Accounting Standard Board (GASB) Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations,” Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments”, Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” and Statement No. 56, “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.”

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effect of existing pollution by participating in pollution remediation activities such as site assessments and cleanup. The implementation of this statement did not result in any change to the Educational Service Center’s financial statements.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The implementation of this statement did not result in any change in the Educational Service Center’s financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the Educational Service Center’s financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants’ and auditing literature into the GASB’s accounting and financial reporting literature for state and local governments. The statement’s guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the Educational Service Center’s financial statements.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Note 4 - Deposits and Investments

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio;
5. Time certificates of deposit or savings or deposit accounts including;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); 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.

Knox County Educational Service Center

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

Investments

As of June 30, 2009, the Educational Service Center only had an investment in STAROhio, the State Treasurer's Investment Pool. This investment had a carrying and fair value of \$1,098,569 and an average maturity of 58.1 days. The investment is in an internal investment pool.

Interest Rate Risk The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Concentration of Credit Risk The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's investment in STAROhio represents 100 percent of the Educational Service Center's total investments.

At June 30, 2009, the Educational Service Center's self-insurance internal service fund had a balance of \$34,640 with OME-RESA, a claim servicing pool (See Note 10). The money is held by the claims servicer in a pool account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Steubenville, Ohio 43952.

Note 5 - Receivables

Receivables at June 30, 2009, consisted of tuition and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Tuition	\$16,146
Customer Services	13,868
Preschool	5,500
Parent Mentor Grant	<u>2,196</u>
<i>Total Governmental Activities</i>	<u><u>\$37,710</u></u>

Note 6 - State Funding

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

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

for all supervisory services among the Educational Service Center’s local and client school districts based on each school’s total student count. The Department of Education deducts each school district’s amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center’s territory and all of the Educational Service Center’s client schools districts. 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 district an amount equal to \$19 times the school district’s total student count and remits this amount to the Educational Service Center.

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

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>7/1/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/09</u>
Governmental Activities				
Capital Assets, being Depreciated Furniture, Fixtures and Equipment	\$192,630	\$110,942	(\$8,789)	\$294,783
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	<u>(93,735)</u>	<u>(19,602) *</u>	<u>6,686</u>	<u>(106,651)</u>
Governmental Activities Capital Assets, Net	<u>\$98,895</u>	<u>\$91,340</u>	<u>(\$2,103)</u>	<u>\$188,132</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$377
Special	2,117
Support Services:	
Pupils	322
Instructional Staff	12,728
Administration	3,731
Fiscal	327
Total Depreciation Expense	<u>\$19,602</u>

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

Note 8 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2009 were as follows:

	Amount Outstanding 7/1/08	Additions	Deletions	Amount Outstanding 6/30/09	Amounts Due in One Year
Governmental Activities					
Compensated Absences	\$83,047	\$38,330	\$16,609	\$104,768	\$20,954

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

Note 9 - Jointly Governed Organizations

Knox County Career Center The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 2009. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

Tri-Rivers Educational Computer Association The Tri-Rivers Educational Computer Association (TRECA) is jointly governed organization among 38 member districts. TRECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the members' districts. The degree of control exercised by any participating school district is limited to its representation on the board. The Knox County Educational Service Center paid \$16,647 for services during fiscal year 2009. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

Note 10 - Insurance Purchasing Pools

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.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self Insurance Plan, A risk-sharing, claims servicing, and insurance purchasing pool comprised of seventy-five members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plans' business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from \$35,000 to \$100,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$400,000, and all claims between the deductible and the \$400,000 are paid from the internal shared risk pool. The internal pool is not owned by the participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$400,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administration fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Self-Funded Plans, Incorporated.

Note 11 - Risk Management

A. 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 2009, 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.

B. Workers' Compensation

For fiscal year 2009, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. 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, 2009*

C. Self-Insurance

Beginning in fiscal year 2009, the Educational Service Center offers 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. (A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$400,000 per employee, per year.) The claims liability of \$150,870 reported in the internal service fund at June 30, 2009 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in fiscal year 2009 were:

	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2009	\$0	\$666,084	\$515,214	\$150,870

Note 12 - Pension Plans

A. School Employees Retirement System

Plan Description - The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 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 pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$170,330, \$147,038, and \$164,513, respectively; 95.88 percent has been contributed for fiscal year 2009 and 100 percent has been contributed for fiscal year 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the combined plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligation was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$287,320, \$294,358, and \$346,282, respectively; 88.23 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$7,612 made by the Educational Service Center and \$11,463 made by the plan members.

Note 13 - Postemployment Benefits

A. School Employee Retirement System

Plan Description - The Educational Service Center participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit

Knox County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$37,190.

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.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$77,355, \$67,098, and \$54,618 respectively; 95.88 percent has been contributed for fiscal years 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.78 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007, were \$14,504, \$10,594 and \$11,187 respectively; 95.88 percent has been contribution for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$22,102, \$22,643 and \$26,637 respectively; 88.23 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Note 14 - Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180

Knox County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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.

Health and prescription drug insurance is provided through OME-RESA (See Note 10). Employees pay \$58 and \$127 monthly for single and family coverage, respectively.

Note 15 - 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 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, 2009.

B. Litigation

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

Note 16 – Interfund Balances

The balances for advances to/from other funds at June 30, 2009, consisted of the following individual fund receivables and payables.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$6,323	\$0
Other Grants	0	265
District Managed Student Activities	0	235
Parent Mentor Grant	0	2,076
Miscellaneous Federal Grant	0	3,747
	<u>0</u>	<u>3,747</u>
Totals	<u>\$6,323</u>	<u>\$6,323</u>

Interfund payables in the special revenue funds are due to the timing of the receipt of reimbursements and grant monies received by the various funds. The money is expected to be paid within one year.

Supplemental Information

Knox County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$843,985	
Interest			17,834	
Tuition and Fees			294,150	
Contributions and Donations			1,000	
Customer Services			4,162,477	
Miscellaneous			643	
<i>Total Revenues</i>			<u>5,320,089</u>	
Expenditures				
Current:				
Instruction:				
Regular	64,630	29,100	27,410	1,690
Special	5,141,394	5,118,580	4,111,156	1,007,424
Support Services:				
Pupils	723,460	789,653	583,343	206,310
Instructional Staff	870,457	909,555	633,303	276,252
Board of Education	45,210	45,888	28,032	17,856
Administration	459,521	459,707	352,342	107,365
Fiscal	148,445	149,970	89,730	60,240
Operation and Maintenance of Plant	99,050	99,050	51,344	47,706
Pupil Transportation	1,000	1,000	0	1,000
Central	3,500	3,500	3,500	0
<i>Total Expenditures</i>	<u>7,556,667</u>	<u>7,606,003</u>	<u>5,880,160</u>	<u>1,725,843</u>
<i>Excess of Revenues</i> <i>Under Expenditures</i>	(7,556,667)	(7,606,003)	(560,071)	1,725,843
Other Financing Uses				
Advances Out	<u>0</u>	<u>0</u>	<u>(2,576)</u>	<u>(2,576)</u>
<i>Net Change in Fund Balance</i>	(7,556,667)	(7,606,003)	(562,647)	
<i>Fund Balance Beginning of Year</i>			1,349,460	
Prior Year Encumbrances Appropriated			<u>9,949</u>	
<i>Fund Balance End of Year</i>			<u><u>\$796,762</u></u>	

See accompanying notes to the basic financial statements

Knox County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2009*

Note 1 – Budgetary Basis of Accounting

A. 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 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 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. 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.

B. Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not reported by the Educational Service Center on the operating statements (budget), but which is reported on the GAAP basis operating statements.

Knox County Educational Service Center

*Notes to the Supplemental Information
For the Fiscal Year Ended June 30, 2009*

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

Net Change in Fund Balance

GAAP Basis	(\$537,033)
Net Adjustment for Revenue Accruals	37,851
Unrecorded Interest	(204)
Net Adjustment for Expenditure Accruals	(8,812)
Advances Out	(2,576)
Encumbrances	<u>(51,873)</u>
Budget Basis	<u><u>(\$562,647)</u></u>

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Mary Taylor, CPA

Auditor of State

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

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

To the Service Center Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2009, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion 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*.

We intend this report solely for the information and use of the audit committee, management, and Board of Education. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

November 17, 2009



Mary Taylor, CPA
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
JANUARY 26, 2010**