



**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To the Board of Education:

We have audited the accompanying general purpose financial statements of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Service Center), as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Muskingum Valley Educational Service Center, Muskingum County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the Government adopted Governmental Accounting Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2001, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the Service Center, taken as a whole. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Jim Petro
Auditor of State

December 7, 2001

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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	<i>Governmental</i>		<i>Proprietary</i>	
	<i>Fund Types</i>		<i>Fund Types</i>	
	General Fund	Special Revenue Funds	Enterprise Fund	Internal Service Fund
<u>Assets and Other Debits:</u>				
Assets:				
Cash and Cash Equivalents	\$2,030,040	\$340,484	\$4,351	\$375,854
Investments	638,637	61,363	0	0
Receivables:				
Accounts	18,203	0	0	0
Intergovernmental	329,913	56,420	0	0
Interest	6,360	0	0	0
Due From Other Funds	67,796	0	0	0
Prepaid Items	310,270	0	0	0
General Fixed Assets	0	0	0	0
Other Debits:				
Amount to be Provided for				
General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	<u>\$3,401,219</u>	<u>\$458,267</u>	<u>\$4,351</u>	<u>\$375,854</u>
<u>Liabilities, Equity and Other Credits:</u>				
Liabilities:				
Accounts Payable	\$22,373	\$16,075	\$0	\$1,505
Accrued Wages and Benefits	314,846	29,768	0	0
Due to Other Funds	0	66,700	0	1,096
Due to Others	1,106	0	0	0
Intergovernmental Payables	141,111	13,515	0	2,162
Installment Loans Payable	0	0	0	0
Compensated Absences Payable	0	0	0	0
Total Liabilities	<u>479,436</u>	<u>126,058</u>	<u>0</u>	<u>4,763</u>
Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	4,351	371,091
Fund Balances:				
Reserved for Encumbrances	38,657	127,226	0	0
Reserved for Prepaid Items	310,270	0	0	0
Unreserved:				
Undesignated	2,572,856	204,983	0	0
Total Equity and Other Credits	<u>2,921,783</u>	<u>332,209</u>	<u>4,351</u>	<u>371,091</u>
Total Liabilities, Equity and Other Credits	<u>\$3,401,219</u>	<u>\$458,267</u>	<u>\$4,351</u>	<u>\$375,854</u>

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

<i>Fiduciary</i> <u>Fund Type</u>	<i>Account</i> <u>Groups</u>		Totals (Memorandum Only)
Expendable Trust Fund	General Fixed Assets	General Long-Term Obligations	
\$11,555	\$0	\$0	\$2,762,284
0	0	0	700,000
0	0	0	18,203
0	0	0	386,333
0	0	0	6,360
0	0	0	67,796
0	0	0	310,270
0	830,954	0	830,954
0	0	524,378	524,378
<u>\$11,555</u>	<u>\$830,954</u>	<u>\$524,378</u>	<u>\$5,606,578</u>
\$0	\$0	\$0	\$39,953
0	0	0	344,614
0	0	0	67,796
0	0	0	1,106
0	0	15,657	172,445
0	0	12,000	12,000
0	0	496,721	496,721
0	0	524,378	1,134,635
0	830,954	0	830,954
0	0	0	375,442
0	0	0	165,883
0	0	0	310,270
<u>11,555</u>	<u>0</u>	<u>0</u>	<u>2,789,394</u>
<u>11,555</u>	<u>830,954</u>	<u>0</u>	<u>4,471,943</u>
<u>\$11,555</u>	<u>\$830,954</u>	<u>\$524,378</u>	<u>\$5,606,578</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<i>Governmental</i>			<i>Fiduciary</i>	Totals (Memorandum Only)
	<i>Fund Types</i>			<i>Fund Type</i>	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund	
<u>Revenues:</u>					
Local Sources:					
Tuition	\$908,233	\$0	\$0	\$0	\$908,233
Investment Earnings	192,212	0	0	0	192,212
Extracurricular Activities	3,206	0	0	0	3,206
Intermediate Sources	16,398	66,698	0	0	83,096
Intergovernmental - State	2,104,388	1,107,719	0	0	3,212,107
Intergovernmental - Federal	0	285,041	0	0	285,041
All Other Revenues	2,208,068	0	104	10,714	2,218,886
Total Revenues	<u>5,432,505</u>	<u>1,459,458</u>	<u>104</u>	<u>10,714</u>	<u>6,902,781</u>
<u>Expenditures:</u>					
Current:					
Instructional Services	1,504,610	462,259	0	0	1,966,869
Supporting Services:					
Pupils	1,116,811	414,825	0	0	1,531,636
Instructional Staff	1,451,684	494,289	0	0	1,945,973
Board of Education	24,491	0	0	0	24,491
Administration	558,551	383,405	0	0	941,956
Fiscal Services	127,785	23,844	0	0	151,629
Operation and Maintenance of Plant	3,189	9,120	0	0	12,309
Pupil Transportation	10,055	185	0	0	10,240
Central	42,444	1,790	0	0	44,234
Community Services	0	3,000	0	0	3,000
Extracurricular Activities	3,764	0	0	0	3,764
Capital Outlay	1,500	0	0	0	1,500
Total Expenditures	<u>4,844,884</u>	<u>1,792,717</u>	<u>0</u>	<u>0</u>	<u>6,637,601</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	587,621	(333,259)	104	10,714	265,180
<u>Other Financing Sources (Uses):</u>					
Refund of Prior Year Expenditures	48,100	0	0	0	48,100
Refund of Prior Year Receipts	(92,457)	0	0	0	(92,457)
Operating Transfers Out	0	(1,000)	0	0	(1,000)
Total Other Financing Sources (Uses)	<u>(44,357)</u>	<u>(1,000)</u>	<u>0</u>	<u>0</u>	<u>(45,357)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	543,264	(334,259)	104	10,714	219,823
Restated Fund Balance (Deficit) Beginning of Year	2,378,519	666,468	(104)	841	3,045,724
Fund Balance End of Year	<u>\$2,921,783</u>	<u>\$332,209</u>	<u>\$0</u>	<u>\$11,555</u>	<u>\$3,265,547</u>

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Local Sources:						
Tuition	\$1,328,745	\$854,367	(\$474,378)	\$0	\$0	\$0
Investment Earnings	127,000	185,852	58,852	0	0	0
Extracurricular Activities	2,800	3,206	406	0	0	0
Intermediate Sources	0	0	0	88,220	67,698	(20,522)
Intergovernmental - State	2,242,802	2,081,736	(161,066)	1,103,719	1,107,719	4,000
Intergovernmental - Federal	0	0	0	311,459	249,221	(62,238)
All Other Revenues	1,767,055	2,086,884	319,829	0	0	0
Total Revenues	<u>5,468,402</u>	<u>5,212,045</u>	<u>(256,357)</u>	<u>1,503,398</u>	<u>1,424,638</u>	<u>(78,760)</u>
Expenditures:						
Current:						
Instruction	1,751,612	1,480,108	271,504	613,126	529,737	83,389
Supporting Services:						
Pupils	1,397,378	1,105,034	292,344	497,190	443,449	53,741
Instructional Staff	1,525,845	1,446,238	79,607	619,769	508,823	110,946
Board of Education	26,593	24,636	1,957	0	0	0
Administration	585,378	541,837	43,541	502,682	427,319	75,363
Fiscal Services	128,504	127,653	851	26,544	23,844	2,700
Operation and Maintenance of Plant	3,193	3,193	0	9,120	9,120	0
Pupil Transportation	10,941	10,741	200	185	185	0
Central	94,965	51,228	43,737	3,276	3,276	0
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	3,142	2,658	484	0	0	0
Capital Outlay	1,500	1,500	0	0	0	0
Total Expenditures	<u>5,529,051</u>	<u>4,794,826</u>	<u>734,225</u>	<u>2,274,892</u>	<u>1,948,753</u>	<u>326,139</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(60,649)	417,219	477,868	(771,494)	(524,115)	247,379
Other Financing Sources (Uses):						
Refund of Prior Years' Expenditures	32,318	48,100	15,782	0	0	0
Refund of Prior Years' Receipts	(92,457)	(92,457)	0	0	0	0
Operating Transfers In	30,000	0	(30,000)	0	0	0
Operating Transfers Out	0	0	0	(1,000)	(1,000)	0
Pass Through Grant	(3,031)	0	3,031	0	0	0
Total Other Financing Sources (Uses)	<u>(33,170)</u>	<u>(44,357)</u>	<u>(11,187)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(93,819)	372,862	466,681	(772,494)	(525,115)	247,379
Fund Balance at Beginning of Year	2,140,697	2,140,697	0	542,117	542,117	0
Prior Year Encumbrances	93,559	93,559	0	230,786	230,786	0
Fund Balance at End of Year	<u>\$2,140,437</u>	<u>\$2,607,118</u>	<u>\$466,681</u>	<u>\$409</u>	<u>\$247,788</u>	<u>\$247,379</u>

(Continued)

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FISCAL YEAR ENDED JUNE 30, 2001

	<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Local Sources:						
Tuition	\$0	\$0	\$0	\$1,328,745	\$854,367	(\$474,378)
Investment Earnings	0	0	0	127,000	185,852	58,852
Extracurricular Activities	0	0	0	2,800	3,206	406
Intermediate Sources	0	0	0	88,220	67,698	(20,522)
Intergovernmental - State	0	0	0	3,346,521	3,189,455	(157,066)
Intergovernmental - Federal	0	0	0	311,459	249,221	(62,238)
All Other Revenues	0	0	0	1,767,055	2,086,884	319,829
Total Revenues	0	0	0	6,971,800	6,636,683	(335,117)
Expenditures:						
Current:						
Instruction	0	0	0	2,364,738	2,009,845	354,893
Supporting Services:						
Pupils	0	0	0	1,894,568	1,548,483	346,085
Instructional Staff	0	0	0	2,145,614	1,955,061	190,553
Board of Education	0	0	0	26,593	24,636	1,957
Administration	0	0	0	1,088,060	969,156	118,904
Fiscal Services	0	0	0	155,048	151,497	3,551
Operation and Maintenance of Plant	0	0	0	12,313	12,313	0
Pupil Transportation	0	0	0	11,126	10,926	200
Central	0	0	0	98,241	54,504	43,737
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	0	0	0	3,142	2,658	484
Capital Outlay	0	0	0	1,500	1,500	0
Total Expenditures	0	0	0	7,803,943	6,743,579	1,060,364
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	0	(832,143)	(106,896)	725,247
Other Financing Sources (Uses):						
Refund of Prior Years' Expenditures	0	0	0	32,318	48,100	15,782
Refund of Prior Years' Receipts	0	0	0	(92,457)	(92,457)	0
Operating Transfers In	0	0	0	30,000	0	(30,000)
Operating Transfers Out	0	0	0	(1,000)	(1,000)	0
Pass Through Grant	0	0	0	(3,031)	0	3,031
Total Other Financing Sources (Uses)	0	0	0	(34,170)	(45,357)	(11,187)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	0	0	(866,313)	(152,253)	714,060
Fund Balance at Beginning of Year	0	0	0	2,682,814	2,682,814	0
Prior Year Encumbrances	0	0	0	324,345	324,345	0
Fund Balance at End of Year	\$0	\$0	\$0	\$2,140,846	\$2,854,906	\$714,060

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Totals (Memorandum Only)</u>
<u>Operating Revenues:</u>			
Tuition and Fees	\$0	\$11,375	\$11,375
Charges for Services	0	257,749	257,749
Total Operating Revenues	<u>0</u>	<u>269,124</u>	<u>269,124</u>
<u>Operating Expenses:</u>			
Salaries and Wages	0	48,919	48,919
Fringe Benefits	0	10,354	10,354
Contractual Services	0	183,506	183,506
Materials and Supplies	411	25,981	26,392
Total Operating Expenses	<u>411</u>	<u>268,760</u>	<u>269,171</u>
Operating Income (Loss)	(411)	364	(47)
<u>Non-Operating Revenues:</u>			
Investment Earnings	223	0	223
Total Non-Operating Revenues	<u>223</u>	<u>0</u>	<u>223</u>
Income (Loss) before Operating Transfers	(188)	364	176
<u>Operating Transfers:</u>			
Operating Transfers In	0	1,000	1,000
Total Operating Transfers	<u>0</u>	<u>1,000</u>	<u>1,000</u>
Net Income (Loss)	(188)	1,364	1,176
Retained Earnings at Beginning of Year	<u>4,539</u>	<u>369,727</u>	<u>374,266</u>
Retained Earnings at End of Year	<u><u>\$4,351</u></u>	<u><u>\$371,091</u></u>	<u><u>\$375,442</u></u>

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<i>Enterprise Fund</i>	<i>Internal Service Fund</i>	<i>Totals (Memorandum Only)</i>
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Tuition and Fee Payments	\$0	\$11,445	\$11,445
Cash Received from Charges for Services	0	260,481	260,481
Cash Payments for Goods and Services	(411)	(209,935)	(210,346)
Cash Payments to Employees for Services and Benefits	0	(59,039)	(59,039)
Net Cash Provided (Used) by Operating Activities	<u>(411)</u>	<u>2,952</u>	<u>2,541</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	<u>0</u>	<u>1,000</u>	<u>1,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>0</u>	<u>1,000</u>	<u>1,000</u>
<u>Cash Flows from Investing Activities:</u>			
Receipts of Interest	<u>223</u>	<u>0</u>	<u>223</u>
Net Cash Provided by Investing Activities	<u>223</u>	<u>0</u>	<u>223</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(188)	3,952	3,764
Cash and Cash Equivalents at Beginning of Year	<u>4,539</u>	<u>371,902</u>	<u>376,441</u>
Cash and Cash Equivalents at End of Year	<u><u>\$4,351</u></u>	<u><u>\$375,854</u></u>	<u><u>\$380,205</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	(\$411)	\$364	(\$47)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	0	2,802	2,802
Decrease in Accounts Payable	0	(564)	(564)
Decrease in Accrued Wages and Benefits	0	(276)	(276)
Increase in Due to Other Funds	0	1,096	1,096
Decrease in Intergovernmental Payables	<u>0</u>	<u>(470)</u>	<u>(470)</u>
Total Adjustments	<u>0</u>	<u>2,588</u>	<u>2,588</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$411)</u></u>	<u><u>\$2,952</u></u>	<u><u>\$2,541</u></u>

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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Muskingum Valley Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected Board of Education of seven members and serves students and educators in Coshocton, Morgan and Muskingum Counties.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the Center (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Center's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the Center. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Center's reporting entity. Based on the foregoing, the reporting entity of the Center includes the following services: services to families and children, professional development and teacher support, technical assistance, curriculum services and operational support.

The Center is associated with the Ohio Mid-Eastern Regional Education Service Agency and the Ohio School Boards Association Workers' Compensation Group Rating Program, which are defined as a jointly governed organization and an insurance purchasing pool. These organizations are presented in Notes 18 and 15.

The accounting policies and financial reporting practices of the Center conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types and account groups are used by the Center:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the Center's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the Center's governmental fund types:

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

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds - The proprietary funds are accounted for on a "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings (net total assets).

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center or to other governments on a cost-reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Center maintains an expendable trust fund which is accounted for and reported similarly to a governmental fund.

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

General Fixed Assets Account Group - This account group is established to account for fixed assets of the Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term liabilities of the Center.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and expendable trust fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Center is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue considered susceptible to accrual at year end includes tuition, grants and entitlements, student fees, and interest on investments.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Center. Part (C) includes the adopted appropriation resolution of the Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Center the amount from part (B) that is to be apportioned to their district.

1. Appropriations

The annual appropriation resolution is legally enacted by the Center at the fund, function and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources and the total 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 Center. The Center may pass supplemental appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

2. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

3. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

4. Budgetary Basis of Accounting

The Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Budgetary Process (Continued)****4. Budgetary Basis of Accounting (Continued)**

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

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		
	General	Special	Capital
	Fund	Revenue Funds	Projects Funds
GAAP Basis (as reported)	\$543,264	(\$334,259)	\$104
Increase (Decrease):			
Accrued Revenues at June 30, 2001, received during FY 2002	(422,272)	(56,420)	0
Accrued Revenues at June 30, 2000, received during FY 2001	201,812	21,600	0
Accrued Expenditures at June 30, 2001, paid during FY 2002	479,436	126,058	0
Accrued Expenditures at June 30, 2000, paid during FY 2001	(394,480)	(128,035)	(104)
FY 2000 Prepaids for FY 2001	336,931	0	0
FY 2001 Prepaids for FY 2002	(310,270)	0	0
Encumbrances Outstanding	(61,559)	(154,059)	0
Budget Basis	<u>\$372,862</u>	<u>(\$525,115)</u>	<u>\$0</u>

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of less than three months.

The Center pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 5, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Center records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost. See Note 5, "Cash, Cash Equivalents and Investments."

G. Fixed Assets

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. The Center does not capitalize interest on fixed asset acquisition costs due to immateriality. The Center uses a \$500 threshold for fixed asset capitalization. Contributed fixed assets are recorded at fair market value at the date received. The Center does not possess any infrastructure.

General fixed asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The Center has elected not to record depreciation in the General Fixed Assets Account Group.

H. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Installment Loan	General Fund
Intergovernmental Payable	General Fund
Compensated Absences	General Fund

I. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," sick leave benefits are accrued as a liability using the vesting method. Employees may earn 15 days of sick leave per year up to a maximum of one hundred and eighty (180) days for employees working one hundred eighty-two days (182), one hundred ninety-two (192) days for employees working one hundred ninety-two days (192), and two hundred and two (202) days for employees working two hundred and two (202) days. The maximum sick leave accumulation for all employees shall be two hundred and two (202) days. Upon retirement, employees will receive a maximum of forty (40) days for employees working one hundred and eighty-two (182) days and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

forty-five (45) days for those working one hundred and ninety-two (192) days. Additional compensation, to recognize extended service as a career professional, may be awarded by the Board equal to one (1) days per diem of the current base salary at the time of retirement for every year of service to the organization. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

J. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

K. Interfund Transactions

During the course of normal operations, the Center has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Short-term interfund loans are reflected as interfund loans payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. There were no residual equity transfers during the fiscal year.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the Center are similarly treated when involving other funds of the Center.

L. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items and encumbered amounts which have not been accrued at year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Total Columns on Combined Financial Statements

Total columns on the "Combined Financial Statements" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

N. Intergovernmental Revenues

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

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

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Excellence in Education

Training Ohio's Parents for Success

Educational Management Information Systems

Public School Preschool

School Net

Parent Mentor

Title I ESEA School Support Team Program

Drug Free Schools and Communities

Preschool Grant for Children with Disabilities

Goals 2000

Alternative Education/Schools Challenge

Grants and entitlements amounted to approximately 50 percent of the Center's operating revenue during the 2001 fiscal year.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2001, the Center has implemented GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions” and GASB Statement No. 36 “Recipient Reporting for Certain Shared Nonexchange Revenues”. At June 30, 2000, there was no effect on fund balance as a result of implementing GASB 33 and GASB 36.

NOTE 3 – RESTATEMENT

During fiscal year 2001 the District’s Agency Fund, the Class Cookie Sales Fund, was consolidated with the General Fund. The consolidation resulted in the following restatement at June 30, 2000 :

General Fund:	
Fund Balance at 6/30/00 (as reported)	\$2,377,961
Agency Fund Consolidation	558
Fund Balance at 6/30/00 (restated)	<u><u>\$2,378,519</u></u>

NOTE 4 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2001 of \$7 in the Local Professional Development Block Grant Fund, \$5,619 in the Excellence in Education Fund and \$31,796 in the Tech Equity Grant Fund arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. A deficit does not exist under the cash basis of accounting.

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the Center into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the Center. Such funds must be maintained either as cash in the Center Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAROhio).
- Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Center places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the Center or by its agent in the Center's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the Center's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Investments:

- Category 1 Insured or registered, or securities held by the Center or its agent in the Center's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Center's name.

A. Deposits

At year end the carrying amount of the Center's deposits was \$799,815 and the bank balance was \$1,221,046. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,021,046 was uninsured and uncollateralized.

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The Center's investments at June 30, 2001 are summarized below:

	<u>Fair Value</u>
Noncategorized Investments	
Money Market Mutual Fund	<u>\$2,662,469</u>

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. All interest revenue was credited to the General Fund and the Food Service Fund during fiscal year 2001. General Fund interest revenue amounted to \$192,212, which includes \$44,119 assigned from other Center funds. Food Service Fund interest revenue amounted to \$223.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	Cash and Cash	
	<u>Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$2,762,284	\$700,000
Certificates of Deposit (with maturities of more than 3 months)	700,000	(700,000)
Investments:		
Money Market Mutual Fund	<u>(2,662,469)</u>	<u>2,662,469</u>
Per GASB Statement No. 3	<u>\$799,815</u>	<u>\$2,662,469</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001 consisted of interest, accounts receivable and intergovernmental receivables.

NOTE 7 - INTERFUND BALANCES

Individual interfund balances at June 30, 2001, are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$67,796	\$0
Special Revenue Funds:		
Other Grants Fund	0	1,267
Excellence in Education Fund	0	7,500
Early Childhood Grant Fund	0	151
Public School Preschool Fund	0	1,853
School Net Professional Development Fund	0	750
Alternative Education Grant Fund	0	4,402
Tech Equity Grant Fund	0	42,216
Parent Mentor Grant Fund	0	4,339
Title I Fund	0	4,222
Total Special Revenue Funds	<u>0</u>	<u>66,700</u>
Internal Service Fund:		
Rotary Fund	0	1,096
Totals	<u><u>\$67,796</u></u>	<u><u>\$67,796</u></u>

NOTE 8 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds at June 30, 2001:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Special Revenue Fund:		
School Net Professional Development Fund	\$0	\$1,000
Internal Service Fund:		
Rotary Fund	1,000	0
Total All Funds	<u><u>\$1,000</u></u>	<u><u>\$1,000</u></u>

NOTE 9 - FIXED ASSETS

General Fixed Assets-Summary by category of changes in general fixed assets at June 30, 2001:

<u>Class</u>	<u>June 30, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2001</u>
Land and Improvements	\$35,000	\$0	\$0	\$35,000
Buildings and Improvements	645	0	0	645
Machinery and Equipment	717,755	130,030	(52,476)	795,309
Totals	<u><u>\$753,400</u></u>	<u><u>\$130,030</u></u>	<u><u>(\$52,476)</u></u>	<u><u>\$830,954</u></u>

NOTE 10 - DEFINED BENEFIT PENSION PLANS

All of the Center's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the Center, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2001, 4.2% was allocated to fund the pension benefit and 9.8% to fund health care. The Center's contributions to the SERS of Ohio for the years ending June 30, 2001, 2000, and 1999 were \$98,957, \$99,606, and \$85,897, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 9.8%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2001, the minimum pay has been established as \$12,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$80,230.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 50,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available) were \$140,696,340 and the target level was \$211.0 million. Net assets available for payment of benefits at June 30, 2000 was \$252.3 million.

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the Center are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 9.3%, respectively. The contribution requirements of plan members and the Center are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2001, 9.5% was allocated to fund the pension benefit and 4.5% to fund health care. The Center's contributions to the STRS of Ohio for the years ending June 30, 2001, 2000, and 1999 were \$345,632, \$422,231, and \$355,552, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2001, the board allocated employer contributions are equal to 4.5% of covered payroll to the Health Care Reserve Fund, which amounted to \$111,096 for the Center. The balance of the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, the net health care costs paid by STRS were \$283,137,000. There were 99,011 eligible benefit recipients.

NOTE 11 - COMPENSATED ABSENCES

The Center provides a liability for accumulated unpaid sick leave and vacation time benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. At June 30, 2001, the total accumulated unpaid sick and vacation time recorded in the General Long-Term Obligations Account Group was:

	<u>Sick Leave</u>	<u>Vacation</u>	<u>Total</u>
Liability	\$462,530	\$34,191	\$496,721

NOTE 12 - GENERAL LONG-TERM DEBT AND OTHER GENERAL LONG-TERM OBLIGATIONS

Activity in the General Long-Term Obligations Account Group during fiscal year 2001 was as follows:

	<u>Balance June 30, 2000</u>	<u>Issued (Retired)</u>	<u>Balance June 30, 2001</u>
General Long-Term Debt:			
(Installment Loan)			
Land Contract	\$13,500	(\$1,500)	\$12,000
Total General Long-Term Debt	<u>13,500</u>	<u>(1,500)</u>	<u>12,000</u>
Other General Long-Term Obligations:			
Intergovernmental Payable	19,269	(3,612)	15,657
Compensated Absences	453,066	43,655	496,721
Total Other General Long-Term Obligations	<u>472,335</u>	<u>40,043</u>	<u>512,378</u>
Total General Long-Term Debt and Other General Long-Term Obligations	<u>\$485,835</u>	<u>\$38,543</u>	<u>\$524,378</u>

A. Principal and Interest Requirements

A summary of the Center's future long-term debt funding requirements, including principal and interest payments as of June 30, 2001, follows:

<u>Years</u>	<u>Installment Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2002	\$1,500	\$0
2003	1,500	0
2004	1,500	0
2005	1,500	0
2006	1,500	0
2007-2009	4,500	0
Totals	<u>\$12,000</u>	<u>\$0</u>

NOTE 13 – OPERATING LEASE

The Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Center paid to the County half of the lease obligation (\$400,000) in December of 1996. The next scheduled payment is due in January of 2008. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Center’s account groups. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2001:

Fiscal Year Ending June 30,	Amounts
2008	\$19,640
2009	42,960
2010	42,960
2011	42,960
2012	44,460
2013-2017	207,020
Total Minimum Payments	<u>\$400,000</u>

NOTE 14 – ALL OTHER REVENUES

The revenue category ‘All Other Revenues’ is comprised of several revenue sources. The following is a summary of those sources in the General Fund for the year ended June 30, 2001:

Source	Amounts
Rental of Office Space	\$4,800
Inservices and Other Training	181,379
Program Charges to Local Districts	1,432,006
Curriculum Products and Tools	238,719
Agreements with Local Agencies	42,376
Community Alternative Funding System	106,117
Fiscal Agency Fees	24,459
Miscellaneous Charges	57,028
Cash Basis All Other Revenues	<u>2,086,884</u>
Less: Amounts Related to Prior Year Accruals	(187,770)
Plus: Amounts Related to Current Year Accruals	<u>308,954</u>
Total All Other Revenues	<u>\$2,208,068</u>

NOTE 15 – INSURANCE PURCHASING POOL

Ohio School Boards Association Workers’ Compensation Group Rating Plan – The 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 the coordinator of the program. Each year the participating school districts pay an enrollment fee to the GRP to cover the cost of administering the program.

NOTE 16 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; injuries to employees and natural disasters. During fiscal year 2001 the Center contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Nationwide Insurance Company	School District Liability	\$0
Nationwide Insurance Company	Commercial Property	\$500

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

For fiscal year 2001, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 17 - CONTINGENCIES

A. Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2001.

B. Litigation

The Center is currently not party to any litigation.

NOTE 17 – CONTINGENCIES (Continued)

C. State School Funding

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 6, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Center is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency/(OME-RESA) – OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

NOTE 19 – STATE FUNDING

The Center is funded by the State Department of Education for the cost of part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$40.52. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided by the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY SOURCE
JUNE 30, 2001

General Fixed Assets

Land and Improvements	\$35,000
Buildings and Improvements	645
Machinery and Equipment	<u>795,309</u>
Total General Fixed Assets	<u><u>\$830,954</u></u>

Investment in General Fixed Assets from:

Acquisitions Prior to Start-up (August 1995)	\$158,832
General Fund	405,880
Special Revenue Fund	162,022
Capital Projects Funds	7,473
Grants	20,680
Capital Lease	35,000
Internal Service Funds	10,368
Fiduciary Funds	<u>30,699</u>
Total Investment in General Fixed Assets	<u><u>\$830,954</u></u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY CATEGORY
JUNE 30 , 2001

<u>Function and Activity</u>	<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Total</u>
Instruction	\$0	\$645	\$126,419	\$127,064
Support Services:				
Pupils	0	0	48,631	48,631
Instructional Staff	0	0	208,904	208,904
Board of Education	0	0	1,240	1,240
Administration	35,000	0	378,432	413,432
Fiscal Services	0	0	29,146	29,146
Central Services	0	0	2,537	2,537
Total General Fixed Assets	<u>\$35,000</u>	<u>\$645</u>	<u>\$795,309</u>	<u>\$830,954</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Function and Activity	June 30, 2000	Additions	Deletions	June 30, 2001
Instruction	\$104,458	\$34,801	(\$12,195)	\$127,064
Support Services:				
Pupils	47,085	4,294	(2,748)	48,631
Instructional Staff	165,148	60,584	(16,828)	208,904
Board of Education	1,240	0	0	1,240
Administration	404,437	29,700	(20,705)	413,432
Fiscal Services	28,495	651	0	29,146
Central Service	2,537	0	0	2,537
Total General Fixed Assets	<u>\$753,400</u>	<u>\$130,030</u>	<u>(\$52,476)</u>	<u>\$830,954</u>

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF LABOR				
<i>Pass-Through State Department of Education</i>				
<i>Pass-Through Harrison County Auditor</i>				
Employment Services and Job Training - Pilot and Demonstration (School-to-Work) Program	17.249	N/A	<u>\$0</u>	<u>\$1,730</u>
Total United States Department of Labor			0	1,730
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Pass-Through State Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	C1-SP-00 P	0	16,111
		C1-ST-00 P	20,600	70,889
		C1-ST-01 P	<u>125,580</u>	<u>114,151</u>
Total Title I Grants to Local Educational Agencies			146,180	201,151
Special Education Cluster:				
Special Education - Grants to States	84.027	6B-PM-00 P	0	5,866
		6B-PM-01 P	<u>25,000</u>	<u>19,466</u>
Total Special Education - Grants to States			25,000	25,332
Special Education Preschool Grant	84.173	PG-S1-2000 P	0	10,026
		PG-S1-2001 P	52,345	39,582
		PG-SC-00 P	<u>12,066</u>	<u>12,066</u>
Total Special Education Preschool Grant			<u>64,411</u>	<u>61,674</u>
Total Special Education Cluster			89,411	87,006
Safe and Drug-Free Schools and Communities	84.186	DR-S1-99 C	0	2,321
		DR-S1-00	<u>0</u>	<u>40,671</u>
Total Safe and Drug-Free Schools and Communities			0	42,992
Fund for the Improvement of Education - McAuliffe Grant	84.215	CJ-S1-2001	900	900
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	G2-A2-2000	12,730	0
		G2-S9-2000	<u>0</u>	<u>8,252</u>
Total Education Systemic Improvement Grant			12,730	8,252
Total United States Department of Education			<u>249,221</u>	<u>340,301</u>
UNITED STATES DEPARTMENT OF HEALTH AND AND HUMAN SERVICES				
<i>Pass-Through Muskingum County and Coshocton County Departments of Job and Family Services</i>				
<i>Temporary Assistance for Needy Families (TANF)</i>	93.558	N/A	359,225	398,500
<i>Social Services Block Grant</i>	93.667	N/A	31,644	31,644
<i>Pass-Through State Department of Jobs and Family Services/State Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program	93.778	N/A	<u>106,117</u>	<u>106,117</u>
Total United States Department of Health and Human Services			<u>496,986</u>	<u>536,261</u>
Total Federal Awards Receipts and Expenditures			<u>\$746,207</u>	<u>\$878,292</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the Service Center's Federal Award Programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

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



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

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To the Board of Education:

We have audited the accompanying general purpose financial statements of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Service Center), as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 7, 2001.

Muskingum Valley Educational Service Center
Muskingum County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

December 7, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To the Board of Education:

Compliance

We have audited the compliance of Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The Service Center's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

December 7, 2001

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Temporary Assistance for Needy Families - CFDA # 93.558
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM 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 22, 2002**