**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

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## INDEPENDENT ACCOUNTANTS REPORT

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, OH 45365

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Shelby County, (the Center) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with 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 the Center, as of June 30, 2002, and the results of its operations, the cash flows of its nonexpendable trust fund, and the statement of changes in net assets/statement of assets – investment trust fund, 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 December 4, 2002, 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 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.

The accompanying schedule of federal awards expenditures is presented for 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. In our opinion, it 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 4, 2002, except Note 17.C, as to which the date is December 11, 2002

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**COMBINED BALANCE SHEET**
**ALL FUND TYPES AND ACCOUNT GROUPS**
**AS OF JUNE 30, 2002**

| | Governmental Fund Types | | Fiduciary Fund Types | Account Groups | | |
|---|---|---|---|---|---|---|
| | **General** | **Special Revenue** | **Trust and Agency** | **General Fixed Assets** | **General Long-Term Obligations** | **Total (Memorandum Only)** |
| **Assets and Other Debits** | | | | | | |
| **Assets:** | | | | | | |
| Equity in pooled cash and cash equivalents | $129,750 | $191,109 | $434,081 | | | $754,940 |
| Equity in pooled cash and cash equivalents - nonexpendable trust fund | | | 3,225 | | | 3,225 |
| Investments | 263,650 | | 533,462 | | | 797,112 |
| Receivables (net of allowances of uncollectibles): | | | | | | |
| Accounts | 2,566 | | | | | 2,566 |
| Accrued interest | | | 2 | | | 2 |
| Interfund loan receivable | 38,133 | | | | | 38,133 |
| Due from other governments | 283,924 | 116,255 | 6,770 | | | 406,949 |
| Materials and supplies inventory | 3,877 | | | | | 3,877 |
| Prepayments | 7,795 | | | | | 7,795 |
| Property, plant and equipment (net of accumulated depreciation where applicable) | | | | $172,675 | | 172,675 |
| **Other Debits:** | | | | | | |
| Amount to be provided for retirement of general long-term obligations | | | | | $78,465 | 78,465 |
| Total assets and other debits | 729,695 | 307,364 | 977,540 | 172,675 | 78,465 | 2,265,739 |
| **Liabilities, Equity and Other Credits** | | | | | | |
| **Liabilities:** | | | | | | |
| Accounts payable | 4,327 | 47,714 | | | | 52,041 |
| Accrued wages and benefits | 84,536 | 89,884 | | | | 174,420 |
| Compensated absences payable | 28,317 | 615 | | | 32,574 | 61,506 |
| Capital lease obligation | | | | | 42,330 | 42,330 |
| Pension obligation payable | 10,369 | 12,376 | | | 3,561 | 26,306 |
| Interfund loan payable | | 38,133 | | | | 38,133 |
| Due to other governments | 4,388 | 5,157 | | | | 9,545 |
| Total liabilities | 131,937 | 193,879 | | | 78,465 | 404,281 |
| **Equity and Other Credits:** | | | | | | |
| Investment in general fixed assets | | | | 172,675 | | 172,675 |
| Amount available for external investment pool participants | | | 813,841 | | | 813,841 |
| Fund balances (deficit): | | | | | | |
| Reserved for encumbrances | 40,939 | 27,302 | | | | 68,241 |
| Reserved for materials and supplies inventory | 3,877 | | | | | 3,877 |
| Reserved for prepayments | 7,795 | | | | | 7,795 |
| Reserved for principal endowment | | | 158,553 | | | 158,553 |
| Unreserved-undesignated | 545,147 | 86,183 | 5,146 | | | 636,476 |
| Total equity and other credits | 597,758 | 113,485 | 977,540 | 172,675 | | 1,861,458 |
| **Total liabilities, equity and other credits** | $729,695 | $307,364 | $977,540 | $172,675 | $78,465 | $2,265,739 |

*The notes to the general-purpose financisl statements are an integral part of this statement.*

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**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, 2002**

| | Governmental Fund Types | | | Fiduciary Fund Type | |
|---|---|---|---|---|---|
| | General | Special Revenue | Capital Projects | Expendable Trust | Total (Memorandum Only) |
| **Revenues:** | | | | | |
| From local sources: | | | | | |
| Earnings on investments | $16,808 | | | $92 | $16,900 |
| Extracurricular activities | | $627 | | | 627 |
| Contract services | 1,317,579 | | | | 1,317,579 |
| Other local | 110,623 | 11,005 | | 1,750 | 123,378 |
| On-behalf of the ESC | 1,403 | | | | 1,403 |
| Unrestricted grants-in-aid from from intermediate sources | 3,869 | 478,560 | | | 482,429 |
| Intergovernmental - State | 383,954 | 100,929 | $3,297 | | 488,180 |
| Intergovernmental - Federal | 96,104 | 329,194 | | | 425,298 |
| Total revenue | 1,930,340 | 920,315 | 3,297 | 1,842 | 2,855,794 |
| **Expenditures:** | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | | 390,657 | | | 390,657 |
| Special | 247,127 | | | | 247,127 |
| Support services: | | | | | |
| Pupil | 607,335 | 13,636 | | | 620,971 |
| Instructional staff | 545,620 | 115,645 | | | 661,265 |
| Board of Education | 18,209 | | | | 18,209 |
| Administration | 236,797 | 26,535 | | | 263,332 |
| Fiscal | 113,765 | | | | 113,765 |
| Business | 56 | | | | 56 |
| Operations and maintenance | 5,333 | 1 | | | 5,334 |
| Central | 136,110 | 3,476 | 3,297 | | 142,883 |
| Community services | | 2,396 | | 2,549 | 4,945 |
| Intergovernmental pass-through | | 355,034 | | | 355,034 |
| Debt service: | | | | | |
| Principal retirement | 7,501 | | | | 7,501 |
| Interest and fiscal charges | 3,758 | | | | 3,758 |
| Total expenditures | 1,921,611 | 907,380 | 3,297 | 2,549 | 2,834,837 |
| Excess (deficiency) of revenues over (under) expenditures | 8,729 | 12,935 | | (707) | 20,957 |
| Fund balances, July 1 | 589,619 | 100,550 | | 5,853 | 696,022 |
| Decrease in reserve for inventory | (590) | | | | (590) |
| **Fund balances, June 30** | $597,758 | $113,485 | $0 | $5,146 | $716,389 |

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

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**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - (NON-GAAP BUDGETARY BASIS) ALL GOVERNMENTAL FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | General | | | Special Revenue | | |
|---|---|---|---|---|---|---|
| | Revised Budget | Actual | Variance: Favorable (Unfavorable) | Revised Budget | Actual | Variance: Favorable (Unfavorable) |
| **Revenues:** | | | | | | |
| From local sources: | | | | | | |
| Earnings on investments | $20,600 | $19,745 | ($855) | | | |
| Extracurricular activities | | | | $627 | $627 | |
| Contract services | 1,315,098 | 1,001,522 | (313,576) | | | |
| Other local | 108,448 | 107,935 | (513) | 11,005 | 11,005 | |
| On-behalf of the ESC | 250 | 1,403 | 1,153 | | | |
| Unrestricted grants-in-aid from intermediate sources | 3,497 | 3,869 | 372 | 405,925 | 389,114 | ($16,811) |
| Intergovernmental - State | 374,809 | 383,954 | 9,145 | 97,632 | 97,632 | |
| Intergovernmental - Federal | 84,300 | 112,118 | 27,818 | 329,194 | 294,194 | (35,000) |
| Total revenues | 1,907,002 | 1,630,546 | (276,456) | 844,383 | 792,572 | (51,811) |
| **Expenditures:** | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | | | | 420,924 | 354,339 | 66,585 |
| Special | 476,922 | 265,703 | 211,219 | 220,227 | 206,930 | 13,297 |
| Support services: | | | | | | |
| Pupil | 667,036 | 592,711 | 74,325 | 26,793 | 26,781 | 12 |
| Instructional staff | 625,500 | 555,512 | 69,988 | 247,967 | 223,060 | 24,907 |
| Board of Education | 34,300 | 19,691 | 14,609 | | | |
| Administration | 238,628 | 231,923 | 6,705 | 26,543 | 26,507 | 36 |
| Fiscal | 128,198 | 115,700 | 12,498 | | | |
| Business | 17,986 | 10,907 | 7,079 | | | |
| Operations and maintenance | 9,781 | 6,871 | 2,910 | | | |
| Pupil transportation | 2,592 | 1,039 | 1,553 | | | |
| Central | 157,259 | 137,100 | 20,159 | 244 | 446 | (202) |
| Community services | | | | 2,447 | 2,447 | |
| Total expenditures | 2,358,202 | 1,937,157 | 421,045 | 945,145 | 840,510 | 104,635 |
| Excess (deficiency) of revenues over (under) expenditures | (451,200) | (306,611) | 144,589 | (100,762) | (47,938) | 52,824 |
| **Other financing sources (uses):** | | | | | | |
| Advances in | 106,500 | 25,000 | (81,500) | 53,900 | 31,500 | (22,400) |
| Advances out | (106,500) | (31,500) | 75,000 | (25,000) | (25,000) | |
| Refund of prior year receipts | (3,798) | (3,798) | | | | |
| Refund of prior year expenditure | 26,763 | 1,224 | (25,539) | 8,190 | 8,190 | |
| Total other financing sources (uses) | 22,965 | (9,074) | (32,039) | 37,090 | 14,690 | (22,400) |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | (428,235) | (315,685) | 112,550 | (63,672) | (33,248) | 30,424 |
| Fund balances, July 1 (restated) | 631,328 | 631,328 | | 145,386 | 145,386 | |
| Prior year encumbrances appropriated | 33,370 | 33,370 | | 7,475 | 7,475 | |
| Fund balances, June 30 | $236,463 | $349,013 | $112,550 | $89,189 | $119,613 | $30,424 |

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

| Capital Projects | | | Total (Memorandum only) | | |
| --- | --- | --- | --- | --- | --- |
| Budget Revised | Actual | Variance: Favorable (Unfavorable) | Budget Revised | Actual | Variance: Favorable (Unfavorable) |
| | | | $20,600 | $19,745 | ($855) |
| | | | 627 | 627 | |
| | | | 1,315,098 | 1,001,522 | (313,576) |
| | | | 119,453 | 118,940 | (513) |
| | | | 250 | 1,403 | 1,153 |
| | | | 409,422 | 392,983 | (16,439) |
| $3,297 | $3,297 | | 475,738 | 484,883 | 9,145 |
| | | | 413,494 | 406,312 | (7,182) |
| 3,297 | 3,297 | | 2,754,682 | 2,426,415 | (328,267) |
| | | | 420,924 | 354,339 | 66,585 |
| | | | 697,149 | 472,633 | 224,516 |
| | | | 693,829 | 619,492 | 74,337 |
| | | | 873,467 | 778,572 | 94,895 |
| | | | 34,300 | 19,691 | 14,609 |
| | | | 265,171 | 258,430 | 6,741 |
| | | | 128,198 | 115,700 | 12,498 |
| | | | 17,986 | 10,907 | 7,079 |
| | | | 9,781 | 6,871 | 2,910 |
| | | | 2,592 | 1,039 | 1,553 |
| 3,297 | 3,297 | | 160,800 | 140,843 | 19,957 |
| | | | 2,447 | 2,447 | |
| 3,297 | 3,297 | | 3,306,644 | 2,780,964 | 525,680 |
| | | | (551,962) | (354,549) | 197,413 |
| | | | 160,400 | 56,500 | (103,900) |
| | | | (131,500) | (56,500) | 75,000 |
| | | | (3,798) | (3,798) | |
| | | | 34,953 | 9,414 | (25,539) |
| | | | 60,055 | 5,616 | (54,439) |
| | | | (491,907) | (348,933) | 142,974 |
| | | | 776,714 | 776,714 | |
| | | | 40,845 | 40,845 | |
| $0 | $0 | $0 | $325,652 | $468,626 | $142,974 |

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENSES,**
**AND CHANGES IN FUND BALANCE**
**NONEXPENDABLE TRUST FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | Fiduciary Fund Type |
|---|---|
| | **Nonexpendable Trust** |
| **Operating revenues:** | |
| Investment earnings | $3,674 |
| Increase in fair market value of investments | 14,762 |
| Total operating revenues | 18,436 |
| **Operating expenses:** | |
| Other | 2,250 |
| Total operating expenses | 2,250 |
| Operating income | 16,186 |
| Fund balance, July 1 | 142,367 |
| **Fund balance, June 30** | $158,553 |

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

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**STATEMENT OF CASH FLOWS**
**NONEXPENDABLE TRUST FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | Fiduciary Fund Type |
|---|---|
| | **Nonexpendable Trust** |
| **Cash flows from operating activities:** | |
| Cash payments for other expenses | ($2,250) |
| Net cash used in operating activities | (2,250) |
| **Cash flows from investing activities:** | |
| Interest received | 1,092 |
| Net cash provided by investing activities | 1,092 |
| Net decrease in cash and cash equivalents | (1,158) |
| Cash and cash equivalents at beginning of year | 4,383 |
| **Cash and cash equivalents at end of year** | 3,225 |
| **Reconciliation of operating income to net cash used in operating activities:** | |
| Operating income | 16,186 |
| **Adjustments to reconcile operating income to net cash used in operating activities:** | |
| Increase in fair market value of investments reported as operating income | (14,762) |
| Interest reported as operating income | (3,674) |
| **Net cash used in operating activities** | ($2,250) |

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

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**STATEMENT OF CHANGES IN NET ASSETS/STATEMENT OF NET ASSETS**
**INVESTMENT TRUST FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

| | Fiduciary Fund Type |
|---|---|
| | **Investment Trust** |
| **Operations:** | |
| Interest income | $19,919 |
| Net change in net assets due to operations | (77,993) |
| Increase in fair market value of investments | 18,450 |
| Decrease from operating transactions | (39,624) |
| **Capital transactions:** | |
| Proceeds from investments sold | 472,698 |
| Purchase of investments | (472,698) |
| Increase from capital transactions | - |
| Total decrease in net assets | (39,624) |
| Net assets, July 1 | 853,465 |
| **Net assets, June 30** | 813,841 |
| **Assets:** | |
| Cash and cash equivalents | 428,935 |
| Investments | 384,906 |
| Total assets | 813,841 |
| **Net assets available to participants** | $813,841 |

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

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

## 1. DESCRIPTION OF THE ENTITY

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 40 non-certificated and 30 certificated employees to provide services to approximately 4,885 students in seven local districts throughout the County.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the 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 Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The Center's significant accounting policies are described below.

### A. The Reporting Entity

The Center's reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The financial statements include all funds, account groups, agencies, boards, commissions, and component units for which the Center is "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the Center and whether exclusion would cause the Center's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependence and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the Center. Based upon the application of these, the Center has no component units. The following organizations are described due to their relationship with the Center.

**Jointly Governed Organizations**

**Western Ohio Computer Organization (WOCO)** - WOCO is a jointly governed organization composed of 29 member school districts. It 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 WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WOCO is governed by a board of directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center is included as an investment trust fund.

**Southwestern Ohio Educational Purchasing Cooperative(SOEPC) –** The SOEPC is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, 1831 Harshman Road, Dayton, Ohio 45424.

**West Central Ohio Special Education Regional Resource Center (SERRC)** – The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**Public Entity Risk Pools**

**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 is a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. 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 participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Fund Accounting

The Center uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

#### 1. Governmental Funds

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

**General Fund**

The general fund is the general operating fund of the Center and is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds**

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

#### 2. Fiduciary Funds

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund, nonexpendable trust funds and investment trust funds. The nonexpendable trust funds and the investment trust funds are accounted for on the accrual basis of accounting. The expendable trust fund is accounted for in the same manner as governmental funds. A separate Statement of Net Assets and Statement of Changes in Net Assets is presented for the investment trust funds.

#### 3. Account Groups

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

**General Fixed Assets Account Group**

This group of accounts is established to account for all fixed assets of the Center.

**General Long-Term Obligations Account Group**

This group of accounts is established to account for all long-term obligations of the Center.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus.

With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The nonexpendable trust fund and the investment trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund is included on the balance sheet. Fiduciary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the Center is sixty days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements, and accounts.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. On the modified accrual basis, revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The nonexpendable trust fund and investment trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met.

### D. Budgets

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

The Center legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center 's Board, the annual appropriation resolution is adopted. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Estimated Resources:

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

### 2. Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriations measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any funds appropriation must be approved by the Board of the Center. The Center may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the budget approved by the State Department of Education.

During the year, several supplemental appropriations were legally enacted. 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. Although the legal level of budgetary control was established at the fund level, the Center has elected to present budgetary statement comparisons at the fund and function level of expenditures.

### 3. Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Cash and Investments

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

During 2002, investments were limited to nonnegotiable certificates of deposit, common stock (see below) and a money market account. Investments are reported at fair value, which is based on quoted market prices. Investments in non-participating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

While common stock is not an allowable investment according to Ohio Statute, the Center has been endowed with a gift of stock to its nonexpendable trust fund a portion of this stock is due to the Sidney City School District. The portion due to the Sidney City School District is reported as an investment trust fund (See Note 6). No public funds were used to acquire the stock.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2002 amounted to $16,808, which includes $10,720 assigned from other Center funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

### F. Inventory

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

### G. Fixed Assets and Depreciation

#### General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the capitalization policy of not capitalizing assets with a cost of less than $1,000 and a useful life of less than one year. No depreciation is recognized for assets in the general fixed assets account group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### H. Compensated Absences

Compensated absences of the Center consist of vacation leave (including compensatory time) and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16, *"Accounting for Compensated Absences*", a liability for vacation leave (including compensatory time) is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation (including compensatory time) and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation (including compensatory time) and severance liabilities of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group.

### I. Long-Term Obligations

For long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

### J. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

### K. Interfund Transactions

During the course of normal operations, the Center may have numerous transactions between funds. The most significant include:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers. The Center made no operating transfers during fiscal year 2002.

2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.

3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The Center had short-term interfund loans receivable or payable at June 30, 2002.

4. Long-term interfund loans that will not be repaid within the next year are termed “advances” and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The Center had no long-term advances receivable or payable at June 30, 2002.

See Note 5 for an analysis of the Center ’s interfund transactions.

### L. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

### M. Estimates

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### N. Memorandum Only - Total Columns

Total columns on the GPFS are captioned “Total (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

## 3. ACCOUNTABILITY AND COMPLIANCE

### A. Fund Balance Restatement

The June 30, 2001 fund balance for special revenue funds as reported in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Funds has been restated to properly report all funds included for reporting purposes. The fund balance in the special revenue funds has been increased by $35,330 from $110,056 to $145,386.

## 3. ACCOUNTABILITY AND COMPLIANCE (Continued)

A restatement was made to decrease the general fixed assets by $41,408 from the $196,848 previously reported at June 30, 2001, to $155,440 for assets being recorded incorrectly in previous years.

### B. Deficit Fund Balances

The Management Information Systems Fund had a deficit fun balance of $2, the Pre-School Fund had a deficit balance of $36, and the After School Alternative Grant Fund had a deficit balance of $1,405 at June 30, 2002.

These funds complied with Ohio State law, which does not permit a cash basis deficit at year-end. These deficits are caused by the application of GAAP, namely in the reporting of a liability for accrued wages and benefits attributable to the fiscal year. These deficits will be eliminated as revenues become available to cover these costs as they are incurred.

## 4. EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents" and "Investments". State statutes require the classification of monies held by the Center into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 the Governing Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. 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;

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and

8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

**Cash on hand***:* At fiscal year-end, the Center had $75 in undeposited cash on hand, which is included on the combined balance sheet of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *"Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".*

**Deposits:** At year-end, the carrying amount of the Center's deposits was $1,274,090 and the bank balance was $1,479,839. These balances include $516,000 in nonnegotiable certificates of deposit and $755,867 in a money market account. Of the bank balance $322,451 was covered by federal depository insurance or by collateral held by the Center in the Center 's name; and $1,157,388 was uninsured and uncollateralized as defined by GASB.

## 4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Although the securities serving as collateral were secured by collateral held by third party trustees pursuant to section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities were not being held in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**Investments:** The Center 's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the Center. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the Center 's name.

| | Category 1 | Reported Amount | Fair Value |
|---|---|---|---|
| Stock | $281,112 | $281,112 | $281,112 |

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled "*Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*". A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

| | Cash and Cash Equivalents/Deposits | Investments |
|---|---|---|
| GASB Statement No. 9 | $ 758,165 | $ 797,112 |
| Investments of the cash management pool: | | |
| Certificates of deposit | 516,000 | (516,000) |
| Cash on hand | (75) | - |
| GASB Statement No. 3 | $1,274,090 | $ 281,112 |

## 5. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

| Fund | Interfund Loan Receivable | Interfund Loan Payable |
|---|---|---|
| General Fund | $38,133 | $ - |
| Special Revenue Funds | | |
| Alternative School | | 31,633 |
| Other Grants - Wellness Grant | - | 6,500 |
| Total, All Funds | $38,133 | $38,133 |

## 6. EXTERNAL INVESTMENT POOL

By statute, the Center serves as fiscal agent for WOCO. The Center pools the moneys of WOCO with the Center 's moneys for investment purposes. The Center cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. WOCO is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. During fiscal year 2002, the investments of the pool were limited to a certificates of deposit and a money market account. WOCO's share of the investment portfolio is presented in a separate investment trust fund.

The Center also maintains stock that was a bequest to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stocks value. The portion of the stock that is due to the Sidney City School District is reported as a separate investment trust fund.

Condensed financial information for the external investment pools are presented in the financial statements.

## 7. RECEIVABLES

Receivables at June 30, 2002 consisted of accounts, accrued interest and amounts due from other governments. A summary of the receivables follows:

| | Amount |
|---|---|
| **General Fund** | |
| Due from other governments | $283,924 |
| Accounts | 2,566 |
| **Special Revenue Funds** | |
| Due from other governments | 116,255 |
| **Nonexpendable Trust Funds** | |
| Due from other governments | 6,770 |

## 8. FIXED ASSETS

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

| | Balance July 1, 2001 | Additions | Disposals | Balance June 30, 2002 |
|---|---|---|---|---|
| Furniture/equipment | $155,440 | $20,300 | $(3,065) | $172,675 |

## 9. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal 2001, the Center entered into capital lease agreements for the acquisition of copier equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "*Accounting for Leases*", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for all Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis.

## 9. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

General fixed assets consisting of copier equipment have been capitalized in the general fixed assets account group in an amount of $50,574. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled $7,501. Principal and interest payments are made from the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2002:

| Year Ending June 30, | General Long-Term Obligation |
|---|---|
| 2003 | $12,859 |
| 2004 | 12,859 |
| 2005 | 12,859 |
| 2006 | 10,715 |
| Total minimum lease payments | 49,292 |
| Less amount representing interest | (6,962) |
| Present value of minimum lease payments | $42,330 |

## 10. LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid. The capital lease obligation is paid from the general fund.

| | Balance July 1, 2001 | Increase | Decrease | Balance June 30, 2002 |
|---|---|---|---|---|
| Compensated absences | $ 53,978 | $ - | $(21,404) | $32,574 |
| Pension obligation payable | 3,863 | 3,561 | (3,863) | 3,561 |
| Capital lease obligation | 49,831 | - | (7,501) | 42,330 |
| Total | $107,672 | $3,561 | $(32,768) | $78,465 |

## 11. RISK MANAGEMENT

### A. Comprehensive and Employee Health Insurance

The 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. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company.

The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

### B. Worker's Compensation

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A). 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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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 ensures 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.

## 12. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

## 12. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute 14 percent for 2002; 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Center 's required contributions to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were $49,186, $35,876, and $43,221, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

### B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent ; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center 's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were $111,557, $99,053, and $55,890, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

### C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, three members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

## 13. POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $52,843 during fiscal 2002.

## 13. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was $3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were $300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at $12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were $161.440 million and the target level was $242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of $315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled $86,836 during the 2002 fiscal year.

## 14. STATE FUNDING

The Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. Part (B) of the budget is funded in the following way: $6.50 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, $37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the Center. If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of $42.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

## 15. GROUP PURCHASING POOL

**Shelby County Schools Consortium** - The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick and dental and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

## 16. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual – Non GAAP Budgetary Basis - All Governmental Fund Types 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 the GAAP basis are that:

(a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources**
**Over/(Under) Expenditures and Other Financing Uses**

| | Governmental Fund Types | |
|---|---|---|
| | General | Special Revenue |
| Budget basis | $(315,685) | $ (33,248) |
| Net adjustment for revenue accruals | 299,794 | 127,743 |
| Net adjustment for expenditure accruals | (28,840) | (138,366) |
| Net adjustment for other financing sources/(uses) | 9,074 | (14,690) |
| Encumbrances (budget basis) | 44,386 | 71,496 |
| GAAP basis | $ 8,729 | $ 12,935 |

## 17. CONTINGENCIES

### A. Grants

The Center receives significant financial assistance from numerous federal, state and local 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2002.

### B. Litigation

The Center is involved in no litigation as either plaintiff or defendant.

### C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The School District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**
**FOR THE YEAR ENDED JUNE 30, 2002**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|---|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | | |
| *Passed Through Ohio Department of Education:* | | | | |
| Special Education Cluster: | | | | |
| Special Education Grants to States (IDEA Part B) | 049742-6B-SF-02P | 84.027 | $281,072 | $246,850 |
| | 049742-6B-SF-01P | | | 44,478 |
| Sub-Total | | | 281,072 | 291,328 |
| Special Education - Preschool Grant | 049742-PG-S1-2002P | 84.173 | 13,122 | 13,122 |
| Total Special Education Cluster | | | 294,194 | 304,450 |
| Eisenhower Professional Development State Grants | 049742-MS-S1-2001 | 84.281 | | 16,371 |
| Total U.S. Department of Education | | | **294,194** | **320,821** |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | |
| *Passed through Ohio Department of Mental Health and Developmental Disabilities* | | | | |
| Medical Assistance Program | | 93.778 | 112,118 | 112,118 |
| Total U.S. Department of Health and Human Services | | | 112,118 | 112,118 |
| **Total Federal Assistance** | | | **$406,312** | **$432,939** |

*The accompanying notes to this schedule are an integral part of this schedule.*

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**
**FOR THE YEAR ENDED JUNE 30, 2002**

## NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

## NOTE B – COMMINGLING OF FEDERAL MONIES

Federal program monies were commingled with state and/or local monies for the Medical Assistance program. It is assumed that federal monies were expended first.

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, OH 45365

To the Governing Board:

We have audited the financial statements of the Educational Service Center, Shelby County, ("the Center") as of and for the year ended June 30, 2002, and have issued our report thereon dated December 4, 2002. 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 Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Center in a separate letter dated December 4, 2002.

This report is intended for the information and use of the audit committee, management, Governing Board, 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 4, 2002

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, OH 45365

To the Governing Board:

**Compliance**

We have audited the compliance of the Educational Service Center, Shelby County, (the Center) with the types of compliance requirements 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, 2002. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with 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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

**Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 4, 2002.

This report is intended for the information and use of the audit committee, management, the Governing Board, 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 4, 2002

**EDUCATIONAL SERVICE CENTER**
**SHELBY COUNTY**

**SCHEDULE OF FINDINGS**
***OMB CIRCULAR A -133 § .505***
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

## 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):** | Medical Assistance Program (CFDA #93.778) |
| *(d)(1)(viii)* | **Dollar Threshold: Type A\B Programs** | Type A: > $ 300,000<br>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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# EDUCATIONAL SERVICE CENTER

# SHELBY 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 7, 2003**