

GENERAL PURPOSE FINANCIAL STATEMENTS

of the

Franklin County Educational Service Center

for the

Fiscal Year Ended June 30, 2002

Prepared By

Marjorie Fenton, Treasurer

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Columbus, Ohio 43207



**Auditor of State
Betty Montgomery**

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Board of Education
Franklin County Educational Service Center
Columbus, Ohio

We have reviewed the Independent Auditor's Report of the Franklin County Educational Service Center, Franklin County, prepared by Jones, Cochenour & Co., for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Franklin County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 22, 2003

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**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
LIST OF PRINCIPAL OFFICIALS**

JUNE 30, 2002

BOARD OF EDUCATION	
Betty Klamforth	President
Robin Pleasnick	Vice President
Joyce Galbraith	President
Richard Helsel	Member
Mary White	Member

Treasurer
Marjorie Fenton

ADMINISTRATION	
Frederick C. Wolfe	Superintendent
Paul Kulik	Director of Support Services



INDEPENDENT AUDITORS' REPORT

The Board of Education
Franklin County Educational Service Center
Columbus, Ohio

We have audited the accompanying general purpose financial statements of Franklin County Educational Service 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 Franklin County Educational 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 aspects, the financial position of Franklin County Educational Service Center, as of June 30, 2002, and the results of its operations and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002 on our consideration of Franklin County Educational 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of receipts and expenditures of federal awards 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 of Franklin County Educational Service Center. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as whole.

Jones, Cochenour & Co.
November 8, 2002

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GENERAL PURPOSE FINANCIAL STATEMENTS

**Franklin County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types			Account Groups		Totals
	Fund Types				Fund Types		Fund Types			Account Groups		2002
	General	Special Revenue	Internal Service	Agency Fund	General Fixed Assets	Long Term Obligations	General (Memorandum) (Only)					
Assets and Other Debits:												
Equity in Pooled Cash and Investments	\$ 6,503,714	1,138,285	77,149	470,469	0	0	0	0	0	\$ 8,189,617		
Interfund Receivables	226,891	0	0	0	0	0	0	0	0	226,891		
Intergovernmental Receivables	1,334,538	37,065	0	59,304	0	0	0	0	0	1,430,907		
Accounts Receivable	1,041,427	0	270	12,259	0	0	0	0	0	1,053,956		
Inventory	0	0	0	0	0	0	0	0	0	0		
Property and Equipment	0	0	0	240,418	2,254,182	0	0	0	0	2,494,600		
Net Accumulated Depreciation	0	0	0	0	(1,150,732)	0	0	0	0	(1,150,732)		
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0	0	0	0	0	0	0		
Total Assets and Other Debits	\$ 9,106,570	1,175,350	77,419	782,450	1,103,450	845,952	0	845,952	0	\$ 13,091,191		
Liabilities:												
Interfund Payables	\$ 0	114,372	0	112,519	0	0	0	0	0	226,891		
Intergovernmental Payable	199,879	3,237	0	1,320	0	0	0	0	0	255,448		
Claims Payable	0	0	24,500	0	0	0	0	0	0	24,500		
Accounts Payable	52,600	479,110	16,809	73,726	0	0	0	0	0	622,245		
Accrued Salaries and Benefits	1,411,532	25,948	0	22,542	0	0	0	0	0	1,460,022		
Due to Others	0	0	0	572,343	0	0	0	0	0	572,343		
Compensated Absences Payable	1,706	0	0	0	0	0	0	0	0	794,940		
Total Liabilities	1,665,717	622,667	41,309	782,450	0	845,952	0	845,952	0	3,958,095		
Fund Equity and Other Credits:												
Net Investment in General Fixed Assets	0	0	0	0	1,103,450	0	0	0	0	1,103,450		
Retained Earnings	0	0	36,110	0	0	0	0	0	0	36,110		
Fund Balances:												
Reserved for Inventory	0	0	0	0	0	0	0	0	0	0		
Reserved for Encumbrances	110,637	456,689	0	0	0	0	0	0	0	567,326		
Unreserved Fund Balance	7,330,216	95,994	0	0	0	0	0	0	0	7,426,210		
Total Fund Balances	7,440,853	552,683	0	0	0	0	0	0	0	7,993,536		
Total Fund Balances/Retained Earnings	7,440,853	552,683	36,110	0	1,103,450	0	0	0	0	9,133,096		
Total Liabilities, Fund Equity, and Other Credits	\$ 9,106,570	1,175,350	77,419	782,450	1,103,450	845,952	0	845,952	0	\$ 13,091,191		

See Accompanying Notes to the General Purpose Financial Statements

Franklin County Educational Service Center
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance
All Governmental Fund Types
Year Ended June 30, 2002

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Contract Services	\$ 6,193,576	0	\$ 6,193,576
Earnings on Investments	128,190	0	128,190
Extracurricular Activities	0	3,118	3,118
Program Services	7,707,794	0	7,707,794
Revenue from Intermediate Sources			
Restricted Grants-in-Aid	0	0	0
Revenue from State Sources			
Unrestricted Grants-in-Aid	3,852,037	468,887	4,320,924
Restricted Grants-in-Aid	28,190	1,645,691	1,673,881
Revenue from Federal Sources			
Restricted Grants-in-Aid	0	4,230,983	4,230,983
Total Revenue	17,909,787	6,348,679	24,258,466
EXPENDITURES:			
Instruction			
Regular Instruction	0	19,331	19,331
Special Instruction	7,147,787	12,243	7,160,030
Vocational Instruction	0	418,814	418,814
		150	
Supporting Services			
Supporting Services-Pupils	632,873	98	632,971
Supporting Services-Instructional Staff	7,642,062	1,396,421	9,038,483
Supporting Services-Board of Education	106,719	0	106,719
Supporting Services-Administration	838,105	3,619,502	4,457,607
Supporting Services-Fiscal	326,058	147,928	473,986
Supporting Services-Business	182,702	(888)	181,814
Operation & Maintenance of Plant	330,236	242,037	572,273
Supporting Services-Pupil Transportation	6,388	0	6,388
Supporting Services-Central	8,822	48,307	57,129
Operation of Non-Instructional Services			
Community Services	0	48,720	48,720
Extracurricular Activities			
C0-Curricular Activities	0	3,111	3,111
Total Expenditures	17,221,752	5,955,774	23,177,526
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	688,035	392,905	1,080,940
Other Financing Sources and Uses:			
Transfers-In	0	18,075	18,075
Refund of Prior Years' Expenditures	81,529	0	81,529
Transfers-Out	0	(18,075)	(18,075)
Refund of Prior Years' Receipts	0	(18,548)	(18,548)
Net Other Financing Sources and Uses	81,529	(18,548)	62,981
Excess (Deficiency) of Revenue Receipts			
and Other Sources Over (Under) Expenditure			
Disbursement and Other Uses	769,564	374,357	1,143,921
Increase (Decrease) of Inventory	(711)	0	(711)
Beginning Fund Balance	6,672,000	178,326	6,850,326
Ending Fund Balance	\$ 7,440,853	552,683	\$ 7,993,536

See Accompanying Notes to the General Purpose Financial Statements

Franklin County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Tuition	\$ 3,447,721	\$ 3,447,721	0	0	0	\$ 0
Earnings on Investment	156,730	156,730	0	0	0	0
Extracurricular Activities	0	0	0	3,118	3,118	0
Miscellaneous	6,226,508	6,226,508	0	0	0	0
Restricted Grants-in-Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	6,856,498	6,856,498	0	468,887	468,887	0
State Restricted Grants-in-Aid	28,190	28,190	0	1,549,952	1,549,952	0
Federal Restricted Grants-in-Aid	0	0	0	4,230,262	4,212,185	(18,077)
Total Revenue	16,715,647	16,715,647	0	6,252,219	6,234,142	(18,077)
Expenditures:						
Regular Instruction	0	0	0	23,464	23,265	199
Special Instruction	6,804,110	6,792,503	11,607	51,883	14,834	37,049
Vocational Instruction	0	0	0	434,430	467,833	(33,403)
Support Services-Pupils	635,823	635,346	477	460	457	3
Support Services-Instructional Staff	7,626,616	7,603,250	23,366	1,869,903	1,560,191	309,712
Support Services-Board of Educ.	112,348	111,405	943	0	0	0
Support Services-Administration	829,309	817,685	11,624	4,553,103	4,090,765	462,338
Fiscal Services	364,536	348,439	16,097	224,234	202,467	21,767
Support Services-Business	198,062	197,888	174	(888)	(888)	0
Operation & Maintenance of Plant	404,842	403,951	891	289,900	263,871	26,029
Support Services-Pupil Transport.	8,164	8,164	0	0	0	0
Support Services-Central	10,949	10,949	0	191,702	178,293	13,409
Community Services	0	0	0	132,099	72,786	59,313
Co-Curricular Activities	0	0	0	18,000	3,111	14,889
Total Expenditures	16,994,759	16,929,580	65,179	7,788,290	6,876,985	911,305
Excess of Revenue Over						
(Under) Expenditures	(279,112)	(213,933)	65,179	(1,536,071)	(642,843)	893,228
Other Financing Sources (Uses):						
Transfers-In	0	0	0	0	18,075	18,075
Advances-In	200,000	93,341	(106,659)	0	103,429	103,429
Refund of Prior Years' Expenditures	81,529	81,529	0	0	0	0
Transfers-Out	0	0	0	27,189	(18,075)	(45,264)
Advances-Out	(207,802)	(215,061)	(7,259)	0	(53,679)	(53,679)
Refund of Prior Years' Receipts	0	0	0	0	(18,548)	(18,548)
Total Other Sources (Uses)	73,727	(40,191)	(113,918)	27,189	31,202	4,013
Excess of Revenues & Other Financing						
Sources Over (Under) Expenditures						
and Other Financing Uses	(205,385)	(254,124)	(48,739)	(1,508,882)	(611,641)	897,241
Beginning Fund Balance	6,480,020	6,480,020	0	73,681	73,681	0
Prior Year Carry Over Encumbrances	142,713	142,713	0	701,338	701,338	0
Ending Fund Balance	\$ 6,417,348	6,368,609	(48,739)	(733,863)	163,378	\$ 897,241

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Franklin County Educational Service Center
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types - Continued
Year Ended June 30, 2002

Totals (Memorandum Only)			
	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Tuition	\$ 3,447,721	3,447,721	\$ 0
Earnings on Investment	156,730	156,730	0
Miscellaneous	6,226,508	6,226,508	0
Restricted Grants-in-Aid	0	0	0
State Unrestricted Grants-in-Aid	7,325,385	7,325,385	0
State Restricted Grants-in-Aid	1,578,142	1,578,142	0
Federal Restricted Grants-in-Aid	4,230,262	4,212,185	(18,077)
Total Revenue	22,964,748	22,946,671	(18,077)
Expenditures:			
Regular Instruction	23,464	23,265	199
Special Instruction	6,855,993	6,807,337	48,656
Vocational Instruction	434,430	467,833	(33,403)
Support Services-Pupils	636,283	635,803	480
Support Services-Instructional Staff	9,496,519	9,163,441	333,078
Support Services-Board of Educ.	112,348	111,405	943
Support Services-Administration	5,382,412	4,908,450	473,962
Fiscal Services	588,770	550,906	37,864
Support Services-Business	197,174	197,000	174
Operation & Maintenance of Plant	694,742	667,822	26,920
Support Services-Pupil Transport.	8,164	8,164	0
Support Services-Central	202,651	189,242	13,409
Community Services	132,099	72,786	59,313
Co-Curricular Activities	18,000	3,111	14,889
Total Expenditures	24,783,049	23,806,565	976,484
Excess of Revenue Over (Under) Expenditures	(1,818,301)	(859,894)	958,407
Other Financing Sources (Uses):			
Transfer-In	0	18,075	18,075
Advances-In	200,000	196,770	(3,230)
Refund of Prior Years Expense	81,529	81,529	0
Transfer-Out	27,189	(18,075)	(45,264)
Advances-Out	(207,802)	(268,740)	(60,938)
Refund of Prior Years Receipt	0	(18,548)	(18,548)
Total Other Sources (Uses)	100,916	(8,989)	(109,905)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,717,385)	(868,883)	848,502
Beginning Fund Balance	6,553,701	6,553,701	0
Prior Year Carry Over Encumbrances	844,051	844,051	0
Ending Fund Balance	\$ 5,680,367	6,528,869	\$ 848,502

See Accompanying Notes to the General Purpose Financial Statements

Franklin County Educational Service Center
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
All Proprietary Fund Types
Year Ended June 30, 2002

	Internal Service
Operating Revenues:	
Services to Other Entities	\$ 289,185
Total Operating Revenue	289,185
Operating Expenses:	
Purchased Services	68,667
Insurance Expenses	245,980
Total Operating Expenses	314,647
Operating Loss	(25,462)
Net Loss	(25,462)
Beginning Retained Earnings	61,572
Retained Earnings at End of Year	\$ 36,110

See Accompanying Notes to the General Purpose Financial Statements.

Franklin County Educational Service Center
Combined Statement of Cash Flows
All Proprietary Fund Types
Year Ended June 30, 2002

	Internal Service
Cash Flows from Operating Activities	
Operating Loss	\$ (25,462)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Net (Increase) in Assets:	
Accounts Receivable	(90)
Net Increase in Liabilities:	
Accounts Payable	14,872
Claims Payable	3,000
Net Adjustments	17,782
Net Cash Used in Operating Activities	(7,680)
Net Decrease in Cash & Cash Equivalents	(7,680)
Cash and Cash Equivalents at Beginning of Year	84,829
Cash and Cash Equivalents at End of Year	\$ 77,149
See Accompanying Notes to the General Purpose Financial Statements	

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**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies

The financial statements of the Franklin County Educational Service Center (the Center) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

A. Reporting Entity

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 governed by a five member Governing Board elected by the citizens of Franklin County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves local school districts: Canal Winchester Local School District, Groveport Madison Local School District, Hamilton Local School District, Plain Local School District and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 176 certified and 227 non-certified personnel. The Franklin County commissioners, as required by State Statute, provide the offices for the use of the Center.

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 and functions for which the Center is financially accountable. This report includes all activities considered by management to be part of the Center by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of a reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

B. Fund Accounting

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

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.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types

Proprietary funds are used to account for the Center's ongoing activities which are similar to those found in the private sector. The following are the proprietary fund types:

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the Center on a cost reimbursement basis.

Fiduciary Fund Types

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 governments, or other funds. The following are the fiduciary fund types:

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the Center's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all of the Center's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus/Basis of Accounting

The modified accrual basis of accounting is followed for Governmental Funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

- 1) Only current assets and current liabilities are generally included on the balance sheets.
- 2) Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.
- 3) Revenues are recognized when they become both measurable and available to finance expenditures for the current period. Revenue accrued at the end of the year may include fees, interest and tuition.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

- 4) Expenditures 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; the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period 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.

Agency fund assets and liabilities are recognized on the modified accrual basis of accounting.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education no later than September 8.

Appropriations

An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

The major differences between the budgetary basis of accounting and GAAP 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); and
- c) Outstanding encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types (GAAP basis).

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the 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 year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

E. Cash and Investments

Cash received by the Center is pooled in a central bank account with individual fund balance integrity maintained throughout. 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 Investments." During the fiscal year all investments were limited to certificates of deposit, State Treasury Asset Reserve of Ohio (STAR Ohio), commercial paper, bankers acceptances, treasury notes, federal agency securities, and repurchase agreements.

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. All investment earnings accrue to the General Fund. Interest income earned in fiscal year 2002 totaled \$128,190.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

F. Taxes

A county educational service center, itself, does not levy taxes. However, a county educational service center governing board may serve as the taxing authority for a county school financing center as authorized by the Ohio Revised Code 135.01 (D). The Center does not currently serve as a taxing authority.

G. Inventories

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventory in this funds is equally offset by a fund balance reserve which indicates that it is unavailable for appropriation.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. Depreciation for assets in the General Fixed Assets Account Group are recorded in the General Fixed Assets Account Group not in the acquiring governmental fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over an estimated useful life of the assets:

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

Description	Estimated Lives
Other Improvements	15 - 30 years
Buildings	15 - 30 years
Furniture and Equipment	5 - 20 years
Vehicles	5 - 15 years

J. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, 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

Special Revenue Funds

Educational Management Information Systems

Non-Reimbursable Grants:

Special Revenue Funds

Teen Parents As Teachers Grant	JJDP Grant
Reading Recovery Grant	Sharing of Best Practices
Training Ohio Parents for Success	Regional 5 Central Media
Teenage Sexuality and Pregnancy	Entry Year Grant
Reggio Project	Milken Funds Project
Title VIB	JOG Project
Early Childhood Education	SCM OCMS
Central Resource Directory	Local STW Grant
Eisenhower Professional Develop.	Goals 2000
Transition Funding	JOBS for Columbus Grads
Miscellaneous State and Federal Grants	

Agency Funds

SchoolNet Grant	Alliance Grant
Project Life	Rehab Services Commission
Project More	Christopher Program
Teachers in the Workplace	Franklin Cty. Entry Year
P.I.E. Grant	JCG Columbus Foundation

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

Grants and entitlements amounted to approximately 56% of the Center's operating revenue during the 2002 fiscal year.

K. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2002, the Center had \$226,891 in interfund receivables/payables.

L. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2002 the Center had no long-term interfund loans.

M. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1. Summary of Significant Accounting Policies (continued)

N. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

O. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

P. Fund Balance Reserves

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 and inventory. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

Q. Memorandum Only - Total Columns

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

R. Accounts Payable

The fair value and carrying value of trade accounts payable are approximately the same.

S. Use of Estimates in Preparation of Financial Statements

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types		
	General Fund	Special Revenue
GAAP Basis	\$ 769,564	\$ 374,357
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	(1,194,140)	(114,537)
Due to Expenditures:		
Net Adjustments to Expenditure Accruals	292,172	(921,211)
Due to Other Sources/Uses	(121,720)	49,750
Budget Basis	\$ (254,124)	\$ (611,641)

Note 3. Cash and Investments

State statutes classify 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 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.

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 money deposited with the institution.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 3. Cash and Investments (continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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;
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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 year end, the Center had \$750 in change cash on hand which is included on the 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 (including Repurchase Agreements), and Reverse Repurchase Agreements*.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 3. Cash and Investments (continued)

Deposits: At fiscal year end, the carrying amount of the Center's deposits was (\$316,907) and the bank balance was \$1,983,676. Of the balance, \$100,000 was covered by Federal Depository Insurance; and \$1,883,676 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

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

	Category 3	Reported Amount	Fair Value
Repurchase Agreement	\$ 1,918,728	\$ 1,918,728	\$ 1,918,728
Federal National Mortgage Association	973,317	973,318	973,318
STAR Ohio		5,613,728	5,613,728
Total Investments		<u>\$ 8,505,774</u>	<u>\$ 8,505,774</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and 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 financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash	Investments
GASB Statement No. 9	\$ 8,189,617	\$ 0
Investments:		
Repurchase Agreement	(1,918,728)	1,918,728
Federal National Mortgage Association	(973,318)	973,318
STAR Ohio	(5,613,728)	5,613,728
Petty Cash	(750)	
GASB Statement No. 3	<u>\$ (316,907)</u>	<u>\$ 8,505,774</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 6/30/2001	Additions	Reductions	Balance at 6/30/2002
Governmental Activities				
Furniture and Equipment	1,876,159	269,473	(69,929)	2,075,703
Equipment	178,479	0	0	178,479
Totals at Historical Cost	<u>2,054,638</u>	<u>269,473</u>	<u>(69,929)</u>	<u>2,254,182</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(938,614)	(188,784)	54,909	(1,072,489)
Vehicles	(63,852)	(14,391)	0	(78,243)
Total Accumulated Depreciation	<u>(1,002,466)</u>	<u>(203,175)</u>	<u>54,909</u>	<u>(1,150,732)</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,052,172</u>	<u>\$ 66,298</u>	<u>\$ (15,020)</u>	<u>\$ 1,103,450</u>

Capital assets for June 30, 2002 were restated to account for an increase in the capitalization threshold to \$500. In addition the Center has elected to begin calculating and reporting depreciation for the assets recorded in the General Fixed Assets Account Group. This restatement had the following effect on fund equity as it was previously reported:

	General Fixed Asset Account Group
Net Assets June 30, 2001	\$ 2,194,564
Depreciation Adjustments:	
Change in Depreciation	(1,002,466)
Change in Threshold:	
Capital Assets	(139,926)
Adjusted Net Assets at June 30, 2001	<u>\$ 1,052,172</u>

The following is a summary of changes in the Agency Funds during the fiscal year 2002:

	Agency Fund Fixed Assets June 30, 2001	Additions	Deletions	Agency Fund Fixed Assets June 30, 2002
Furniture and Equipment	<u>\$ 242,647</u>	<u>0</u>	<u>2,229</u>	<u>\$ 240,418</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 5. Receivables

Receivables at June 30, 2002 consisted of special education tuition due from school districts. All receivables are considered collectible in full due to the stable condition of State programs. A summary of the principal items of Intergovernmental and Accounts Receivables follows:

<u>General Fund:</u>	
Accounts Receivable	\$ 1,041,427
Intergovernmental:	
Educational Services	1,334,538
Total General Fund:	<u>2,375,965</u>
<u>Special Revenue Funds</u>	
Intergovernmental Receivable	37,065
Total Special Revenue Funds	<u>37,065</u>
<u>Internal Service Funds:</u>	
Accounts Receivable	270
Total Internal Service Funds:	<u>270</u>
<u>Agency Funds:</u>	
Accounts Receivable	12,259
Intergovernmental Receivables	59,304
Total Agency Funds:	<u>\$ 71,563</u>

Note 6. Defined Benefit Pension Plans

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3736.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001 (the latest information available), 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$939,747, \$853,755 and \$719,655 respectively; 94.85 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$51,012 representing the unpaid surcharge for fiscal year 2002, is recorded as a liability in the general long-term obligations account group.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 6. Defined Benefit Pension Plans

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000 (the latest information available), 6 percent was used to fund pension obligations. Contribution rates are established by STRS, 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 for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,186,976, \$1,046,985 and \$914,838, respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000.

Note 7. Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001 (the latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2001. For the Center, this amount equaled \$381,528 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 7. Postemployment Benefits (continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001 (the latest information available), employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent for fiscal year 2001. 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. For the Center, the amount to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$708,835.

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 \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 8. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from Center policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-9	10
10-19	15
20-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 9. Risk Management

General Risk

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 addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General Liability:

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

The Center maintains replacement cost insurance on building contents in the amount of \$50,000 with supplemental coverage for computers and classroom equipment. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

Workers' Compensation Liability-Public Entity Risk Pool:

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 Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers 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 and educational service centers is calculated as one experience and a common premium rate is applied to all school Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Health Insurance:

The Center is fully insured for medical insurance with the Anthem and United Health Companies.

The Center has established an internal service "self-insurance" fund for dental insurance, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 9. Risk Management (continued)

This self-insurance fund was established for the purpose of accumulating balances sufficient to self-insure dental coverage and permit excess umbrella coverage for claims over a pre-determined level. The Center pays 100% of the premium contributions. Amounts are paid into this fund from the General Fund and certain Special Revenue Funds (Grants). Mutual Health Services is the third party administrator. Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$24,500 at June 30, 2002. There were no significant reductions in coverages and no settlements exceeded insurance coverage during the past three years.

A summary of changes in self-insurance claims:

	June 30, 2002	June 30, 2001
Claim Liabilities at beginning of year	\$ 21,500	\$ 20,300
Incurred Claims	257,033	205,997
Claims Paid	(254,033)	(204,797)
Claim Liabilities at end of year	<u>\$ 24,500</u>	<u>\$ 21,500</u>

Note 10. Long-Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 2002, are as follows:

	Balance			Balance
	July 1, 2001	Additions	Deletions	June 30, 2002
Intergovernmental Payable	\$ 46,109	4,903	0	\$ 51,012
Compensated Absences Payable	<u>560,211</u>	<u>234,729</u>	<u>0</u>	<u>794,940</u>
Total Long Term Obligations	<u>\$ 606,320</u>	<u>239,632</u>	<u>0</u>	<u>\$ 845,952</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 11. Interfund Transactions

At June 30, 2002, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	Receivables	Payables
General Fund	\$ 226,891	\$ 0
Special Revenue Funds	0	114,372
Agency Funds	0	112,519
	\$ 226,891	\$ 226,891

Note 12. Jointly Governed Organizations

Metropolitan Educational Council - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County school districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the governing board. MEC is it's own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Note 13. Contingencies

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2002.

B. Litigation

The Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2002.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 14. 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 provided 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 \$37. 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 through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Note 15. School Funding Decision

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.

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. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2002**

<u>Federal Grantor/ Pass-Through Grantor/ Program Grant Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<i>U.S Department of Education/ Ohio Department of Education</i>				
Special Education Cluster: Handicapped State Grants	6B-SX-00P	84.027	\$ 179,375.04	\$ 247,427.62
	6B-SI-01P		271,373.03	450,928.57
	6B-SI-02		1,626,032.91	1,401,609.83
	6B-SV-01		852,953.00	823,996.55
	6B-SV-02P		858,438.00	694,386.31
			16,250.00	150,940.90
			-	16,250.00
			-	36,289.58
Special Education - Preschool Grants	PG-S3-01	84.173	7,455.00	17,003.50
	PG-S3-02		71,782.37	60,918.13
	PG-S1-02		16,637.00	55,455.00
	PG-S2-01		153,206.31	157,463.18
	PG-S2-02		104,293.08	71,552.37
	PG-S4-01		44,322.04	85,970.69
	PG-S4-02		214,359.00	265,616.43
	PG-S7-01		-	3,989.25
	PG-S7-02P		11,250.00	7,101.76
			<u>4,427,726.78</u>	<u>4,546,899.67</u>
TOTAL SPECIAL EDUCATION CLUSTER				
Javits Grant	JG-S1-00	84.206	-	42.10
Even Start - State Educational Agencies	EV-ST-01	84.213	24,500.00	10,720.28
	EV-ST-02		6,739.00	22,394.45
Goals Special Projects	G2-TA-01	84.276	-	3,808.08
	G2-S9-00		-	709.71
	G2-SP-01		9,000.00	1,130.24
Eisenhower Professional Development	MS-S2-00	84.281	-	40,339.92
	MS-S2-2002		37,633.00	36,288.03
	MS-S4-00		-	23,773.44
	MS-S4-02P		10,000.00	34,504.04

See accompanying notes to the schedule

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES- CONTINUED
For the Year Ended June 30, 2002**

<u>Federal Grantor/ Pass-Through Grantor/ Program Grant Title</u>	<u>Pass Through Entity Number</u>	<u>CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
Comprehensive School Reform Demonstration	DM-01 DM-02	84.332	45,960.87 90,442.71	46,390.50 78,961.55
<i>U.S Department of Education/ Ohio Coalition for Education of Children with Disabilities</i>				
Parent Training and Information	OS-1875-0101 OS-1875-0102	84.328	230,706.62 33,228.47	254,458.44 32,500.87
TOTAL U.S. DEPARTMENT OF EDUCATION			4,915,937.45	5,132,921.32
<i>U.S. Department of Labor/ Ohio Department of Education</i>				
Jobs for Ohio Grads	JOG	17.623	-	6,039.59
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			\$ 4,915,937.45	\$ 5,138,960.91

Note: The Franklin Educational Service Center collected federal grant monies in its capacity of fiscal agent.

See accompanying notes to the schedule

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTE TO THE SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal award receipts and expenditures is a summary of the activity of the Board's federal award programs. The schedule has been prepared on the cash basis of accounting.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Education
Franklin County Educational Service Center
Columbus, Ohio

We have audited the general purpose financial statements of Franklin County Educational Service Center as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 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 Franklin County Educational 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 Franklin County Educational 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of education, management, Auditor of State 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.

**Jones, Cochenour & Co.
November 8, 2002**



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

The Board of Education
Franklin County Educational Service Center
Columbus, Ohio

Compliance

We have audited the compliance of Franklin County Educational 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 each of its major federal programs for the year ended June 30, 2002. Franklin County Educational Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Franklin County Educational Service Center's management. Our responsibility is to express an opinion on Franklin County Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin County Educational 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 Franklin County Educational Service Center's compliance with those requirements.

In our opinion, Franklin County Educational Service Center, complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Franklin County Educational 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 Franklin County Educational 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 solely for the information and use of the board of education, management, Auditor of State 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.

**Jones, Cochenour & Co.
November 8, 2002**

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITORS' 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):	Special Education Cluster Parent Training and Information CFDA # 84.027, 84.029 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505 - CONTINUED
JUNE 30, 2002**

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

There are no findings for the year ended June 30, 2002.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings for the year ended June 30, 2002.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
CONCLUSION STATEMENT
JUNE 30, 2002**

The draft audit report was furnished to the District officials. They elected to waive a formal post audit conference in a verbal communication on December 10, 2002.



**Auditor of State
Betty Montgomery**

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FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

FRANKLIN 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 30, 2003**