



**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EDUCATIONAL SERVICE CENTER
LICKING COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Educational Service Center
Licking County
675 Price Road
Newark, Ohio 43055

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the 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 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 Educational Service Center, Licking County, Ohio, as of June 30, 2001, and the results of its operations 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 26, 2001 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.

JIM PETRO
Auditor of State

November 26, 2001

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**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits:					
Assets:					
Cash and Cash Equivalents	\$1,039,106	\$98,115	\$0	\$0	\$1,137,221
Receivables:					
Accounts	2,922	0	0	0	2,922
Intergovernmental	493,399	0	0	0	493,399
Interfund	3,069	0	0	0	3,069
Materials and Supplies Inventory	2,743	0	0	0	2,743
Prepaid Items	23,609	3,617	0	0	27,226
Fixed Assets	0	0	467,562	0	467,562
Other Debits:					
Amount to be Provided from					
General Government Resources	0	0	0	182,667	182,667
Total Assets and Other Debits	\$1,564,848	\$101,732	\$467,562	\$182,667	\$2,316,809
Liabilities, Fund Equity and Other Credits:					
Liabilities:					
Accounts Payable	\$4,365	\$568	\$0	\$0	\$4,933
Contracts Payable	5,535	122	0	0	5,657
Accrued Salaries Payable	299,493	25,488	0	0	324,981
Interfund Payable	0	3,069	0	0	3,069
Intergovernmental Payable	296,050	17,208	0	21,068	334,326
Deferred Revenue	475,121	0	0	0	475,121
Capital Leases Payable	0	0	0	15,786	15,786
Compensated Absences Payable	29,352	136	0	145,813	175,301
Total Liabilities	1,109,916	46,591	0	182,667	1,339,174
Fund Equity and Other Credits:					
Investment in General Fixed Assets	0	0	467,562	0	467,562
Fund Balances:					
Reserved for Encumbrances	11,603	15,773	0	0	27,376
Reserved for Inventory	2,743	0	0	0	2,743
Unreserved	440,586	39,368	0	0	479,954
Total Fund Equity and Other Credits	454,932	55,141	467,562	0	977,635
Total Liabilities, Fund Equity and Other Credits	\$1,564,848	\$101,732	\$467,562	\$182,667	\$2,316,809

See accompanying notes to the general purpose financial statements.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental	\$1,748,543	\$397,022	\$2,145,565
Interest	51,122	0	51,122
Tuition and Fees	1,933,978	0	1,933,978
Gifts and Donations	31,135	39,901	71,036
Miscellaneous	22,360	0	22,360
	<hr/>	<hr/>	<hr/>
Total Revenues	3,787,138	436,923	4,224,061
Expenditures:			
Current:			
Instruction:			
Regular	34,828	48	34,876
Special	875,264	128,839	1,004,103
Support Services:			
Pupils	681,126	46,032	727,158
Instructional Staff	1,395,380	236,929	1,632,309
Board of Education	9,765	0	9,765
Administration	472,515	4,139	476,654
Fiscal	156,533	3,750	160,283
Business	12,466	0	12,466
Operation and Maintenance of Plant	82,307	57,190	139,497
Pupil Transportation	123	0	123
Central	6,640	9,560	16,200
Non-Instructional Services	0	1,033	1,033
Capital Outlay	132,672	0	132,672
Debt Service:			
Principal Retirement	4,794	0	4,794
Interest and Fiscal Charges	354	0	354
	<hr/>	<hr/>	<hr/>
Total Expenditures	3,864,767	487,520	4,352,287
Excess of Revenues Under Expenditures	(77,629)	(50,597)	(128,226)
Other Financing Source:			
Inception of Capital Lease	15,786	0	15,786
	<hr/>	<hr/>	<hr/>
Excess of Revenues and Other Financing Source Under Expenditures	(61,843)	(50,597)	(112,440)
Fund Balances at Beginning of Year	515,633	105,738	621,371
Increase in Reserve for Inventory	1,142	0	1,142
	<hr/>	<hr/>	<hr/>
Fund Balances at End of Year	\$454,932	\$55,141	\$510,073

See accompanying notes to the general purpose financial statements.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2001**

	<u>General Fund</u>			<u>Special Revenue Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:						
Intergovernmental	\$1,561,754	\$1,769,185	\$207,431	\$307,291	\$397,022	\$89,731
Interest	45,000	51,122	6,122	0	0	0
Tuition and Fees	1,854,693	1,960,692	105,999	0	0	0
Gifts and Donations	20,000	31,135	11,135	24,911	39,901	14,990
Miscellaneous	4,107	7,108	3,001	0	0	0
Total Revenues	<u>3,485,554</u>	<u>3,819,242</u>	<u>333,688</u>	<u>332,202</u>	<u>436,923</u>	<u>104,721</u>
Expenditures:						
Current:						
Instruction:						
Regular	45,414	42,961	2,453	0	0	0
Special	1,103,914	913,582	190,332	158,620	141,806	16,814
Support Services:						
Pupils	764,126	730,847	33,279	47,305	46,911	394
Instructional Staff	1,534,595	1,470,009	64,586	273,500	248,382	25,118
Board of Education	17,104	9,748	7,356	0	0	0
Administration	554,472	501,540	52,932	4,736	4,736	0
Fiscal	168,692	157,273	11,419	3,750	3,750	0
Business	25,000	12,846	12,154	0	0	0
Operation and Maintenance of Plant	117,319	90,174	27,145	57,344	57,344	0
Pupil Transportation	76,205	123	76,082	0	0	0
Central	8,143	8,133	10	13,332	9,560	3,772
Non-Instructional Services	0	0	0	1,033	1,033	0
Capital Outlay	131,092	116,886	14,206	0	0	0
Total Expenditures	<u>4,546,076</u>	<u>4,054,122</u>	<u>491,954</u>	<u>559,620</u>	<u>513,522</u>	<u>46,098</u>
Excess of Revenues Under Expenditures	<u>(1,060,522)</u>	<u>(234,880)</u>	<u>825,642</u>	<u>(227,418)</u>	<u>(76,599)</u>	<u>150,819</u>
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	0	9,718	9,718	0	0	0
Advances In	0	0	0	0	3,069	3,069
Advances Out	(3,069)	(3,069)	0	0	0	0
Total Other Financing Sources (Uses)	<u>(3,069)</u>	<u>6,649</u>	<u>9,718</u>	<u>0</u>	<u>3,069</u>	<u>3,069</u>
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	<u>(1,063,591)</u>	<u>(228,231)</u>	<u>835,360</u>	<u>(227,418)</u>	<u>(73,530)</u>	<u>153,888</u>
Fund Balances at Beginning of Year	704,459	704,459	0	104,236	104,236	0
Prior Year Encumbrances Appropriated	<u>253,309</u>	<u>253,309</u>	<u>0</u>	<u>37,038</u>	<u>37,038</u>	<u>0</u>
Fund Balances (Deficits) at End of Year	<u><u>(\$105,823)</u></u>	<u><u>\$729,537</u></u>	<u><u>\$835,360</u></u>	<u><u>(\$86,144)</u></u>	<u><u>\$67,744</u></u>	<u><u>\$153,888</u></u>

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2001
(Continued)**

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$1,869,045	\$2,166,207	\$297,162
Interest	45,000	51,122	6,122
Tuition and Fees	1,854,693	1,960,692	105,999
Gifts and Donations	44,911	71,036	26,125
Miscellaneous	4,107	7,108	3,001
Total Revenues	3,817,756	4,256,165	438,409
Expenditures:			
Current:			
Instruction:			
Regular	45,414	42,961	2,453
Special	1,262,534	1,055,388	207,146
Support Services:			
Pupils	811,431	777,758	33,673
Instructional Staff	1,808,095	1,718,391	89,704
Board of Education	17,104	9,748	7,356
Administration	559,208	506,276	52,932
Fiscal	172,442	161,023	11,419
Business	25,000	12,846	12,154
Operation and Maintenance of Plant	174,663	147,518	27,145
Pupil Transportation	76,205	123	76,082
Central	21,475	17,693	3,782
Non-Instructional Services	1,033	1,033	0
Capital Outlay	131,092	116,886	14,206
Total Expenditures	5,105,696	4,567,644	538,052
Excess of Revenues Under Expenditures	(1,287,940)	(311,479)	976,461
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures	0	9,718	9,718
Advances In	0	3,069	3,069
Advances Out	(3,069)	(3,069)	0
Total Other Financing Sources (Uses)	(3,069)	9,718	12,787
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(1,291,009)	(301,761)	989,248
Fund Balances at Beginning of Year	808,695	808,695	0
Prior Year Encumbrances Appropriated	290,347	290,347	0
Fund Balances (Deficits) at End of Year	(\$191,967)	\$797,281	\$989,248

See accompanying notes to the general purpose financial statements.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. REPORTING ENTITY

The Licking County Educational Service Center (the "Educational Service Center") is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Licking Heights, Lakewood, Licking Valley, North Fork, Northridge, and Southwest Licking Local School Districts, Granville Exempted Village School District, Newark and Heath City School Districts, and the Licking County Joint Vocational School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 42 support staff employees and 60 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

B. Component Units

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

The Educational Service Center is associated with the Licking Area Computer Association, the Licking County Joint Vocational School, the Central Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Metropolitan Educational Council, and the Ohio School Boards Association Workers' Compensation Group Rating Plan, which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in Notes 16 and 17.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are all grouped into the governmental generic fund type category.

Governmental Fund Types:

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

General Fund

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

Special Revenue Funds

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

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

Account Groups:

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place, provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Non-exchange transactions, in which the Educational Service 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, grants, and student fees.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Data

The budgetary process entails the preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget 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 Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

In the first quarter of each fiscal year, the Educational Service 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 Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Appropriations:

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. When necessary, the school board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The school board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total fund appropriation, or alter any total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the estimated resources set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

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. 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.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

During fiscal year 2001, investments were limited to STAR Ohio and repurchase agreements. 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, 2001. Repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$51,122, which includes \$8,462 assigned from other Educational Service Center funds.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments; during the fiscal year, the Educational Service Center had no investments that met these criteria.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

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

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. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated. The Educational Service Center does not have any infrastructure.

H. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than three months of service.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after eleven years of current service with the Educational Service Center.

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

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Capital leases are reported as a liability of the general long-term obligations account group until due.

J. Fund Balance Reserves

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

K. Interfund Transactions

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

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

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Estimates

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

M. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements 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 and results of operations 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.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Reporting for Certain Shared Nonexchange Revenues." The implementation of GASB Statements 33 and 36 had no effect on fund balance at June 30, 2000.

4. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Excess of Revenues Under Expenditures
All Governmental Fund Types**

	General	Special Revenue
GAAP Basis	(\$61,843)	(\$50,597)
Revenue Accruals	41,822	0
Expenditure Accruals	110,304	4,530
Prepaid Items	(5,876)	(161)
Advances	(3,069)	3,069
Encumbrances	(309,569)	(30,371)
Budget Basis	(\$228,231)	(\$73,530)

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. DEPOSITS 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 in an amount not to exceed twenty-five percent of the interim moneys 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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Deposits:

At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$162,456) and the bank balance was \$65,123. All of the bank balance was covered by federal depository insurance.

Investments:

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

	Category 3	Carrying and Fair Value
Repurchase Agreement	\$955,500	\$955,500
STAR Ohio		344,177
Totals		\$1,299,677

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 classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,137,221	\$0
Investments of the Cash Management Pool:		
Repurchase Agreements	(955,500)	955,500
STAR Ohio	(344,177)	344,177
GASB Statement 3	(\$162,456)	\$1,299,677

6. STATE FUNDING

The Educational Service 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 Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service 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 Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

7. RECEIVABLES

Receivables at June 30, 2001, consisted of charges for services, excess costs, and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. RECEIVABLES (Continued)

	Amount
General Fund:	
Excess Costs	\$462,751
CAFS	17,853
Audio/Video Services	4,436
Home Instruction	5,219
Copies	471
Other	2,669
Total General Fund	\$493,399

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance 06/30/00	Additions	Deletions	Balance 06/30/01
Furniture and Equipment	\$407,956	\$81,382	\$37,087	\$452,251
Vehicles	15,311	0	0	15,311
Total	\$423,267	\$81,382	\$37,087	\$467,562

9. RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the Educational Service Center contracted with Nationwide Insurance for all insurance coverages.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

9. RISK MANAGEMENT (Continued)

Coverages provided by Nationwide Insurance are as follows:

Personal Property	\$414,500
Data Processing Equipment (\$250 deductible)	152,000
General Liability:	
Per Occurrence	2,000,000
Aggregate Limit	5,000,000
Inland Marine (\$100 deductible)	40,000
Automobile Liability (\$500 deductible)	1,000,000
Uninsured Motorists (\$500 deductible)	1,000,000

Settled claims have not exceeded coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2001, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center participates in the School 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.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2001, plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$201,001, \$111,691 and \$101,121, respectively; the full 2001 pension payment was not paid until August 2001 and is recorded as a liability within the respective funds. The full pension obligations was paid for fiscal years 2000 and 1999.

B. School Employees Retirement System

The Educational Service 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund the pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$30,022, \$34,488 and \$45,979 respectively; 91 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$2,632 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

11. POST-EMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-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 STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$97,106 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent 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, 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 2001, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$82,348.

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, 2000, (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from State laws. Classified employees and administration employees earn twenty to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 192 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days.

B. Insurance Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through United Health Care of Ohio. The Educational Service Center pays monthly premiums of up to \$375 maximum per person. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center requires the employees to contribute \$5 for single coverage and \$10 for family coverage towards their total dental premium and the Educational Service Center pays the remaining premium. The Educational Service Center provides vision insurance to its employees at a cost of \$11.74 for single and \$33.12 for family coverages. The Educational Service Center pays the remaining premiums. The Educational Service Center also provides life insurance through Metropolitan Life Insurance Company at a cost of \$5 per employee.

13. CAPITAL LEASES - LESSEE DISCLOSURE

The Educational Service Center has entered into a capitalized lease for photo-copying equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements. These expenditures are reported as function expenditures on the budgetary statements.

Equipment acquired by lease has been capitalized in the general fixed assets account group in the amount of \$15,786, which is equal to 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 fiscal year 2001 totaled \$4,794.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

13. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the net minimum lease payments:

Year Ending June 30,	Total
2002	\$4,160
2003	3,840
2004	3,840
2005	3,840
2006	3,520
Total minimum lease payments	19,200
Less: amount representing Interest	(3,414)
Present value of minimum lease	\$15,786

14. LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2001 were as follows:

	Outstanding 6/30/00	Additions	Deletions	Outstanding 6/30/01
Compensated Absences	\$108,333	\$78,972	\$41,492	\$145,813
Capital Leases	4,794	15,786	4,794	15,786
Pension Obligation	19,143	21,068	19,143	21,068
Total Long-Term Obligations	\$132,270	\$115,826	\$65,429	\$182,667

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the general fund.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

15. INTERFUND ACTIVITY

Interfund balances at June 30, 2001, consist of the following individual interfund receivables and payables:

	Receivable	Payable
General Fund	\$3,069	\$0
Special Revenue Fund:		
Handicapped Preschool	0	3,069
Total All Funds	\$3,069	\$3,069

16. JOINTLY GOVERNED ORGANIZATIONS

A. Licking Area Computer Association

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the Educational Service Center's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. Financial statements for LACA can be obtained from their fiscal agent - the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

B. Licking County Joint Vocational School

The Licking County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three representatives from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District. To obtain financial information write to the Licking County Joint Vocational School, Shirley Dupps, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Central Ohio Special Education Regional Resource Center

The Central Ohio Educational Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. The Educational Service Center has a cooperative agency agreement with COSERRC. There is no financial commitment by the Educational Service Center for its participation in the projects. The District is represented on the governing board by a district member. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various inservice for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Educational Service Center's membership fee was \$300 for fiscal year 2001.

E. Metropolitan Educational Council

The Educational Service Center participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The Educational Service Center does not participate in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Educational Service Center's membership payment to MEC for fiscal year 2001 was \$300. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

**EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

17. INSURANCE PURCHASING POOL

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

18. CONTINGENCIES

A. Grants

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

B. Litigation

The Educational Service Center is currently not party to any litigation.

19. STATE 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.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

19. STATE SCHOOL FUNDING DECISION (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio educational service centers. However, as of November 9, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual educational service centers. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

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

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JIM PETRO, AUDITOR OF STATE

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

Board of Education
Educational Service Center
Licking County
675 Price Road
Newark, Ohio 43055

We have audited the general-purpose financial statements of the Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 26, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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. However, we noted 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 November 26, 2001.

This report is intended for the information and use of the audit committee, management, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

November 26, 2001



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LICKING EDUCATIONAL SERVICE CENTER

LICKING 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
DECEMBER 18, 2001**