

GENERAL PURPOSE FINANCIAL STATEMENTS

of the

Franklin County Educational Service Center

for the

Fiscal Year Ended June 30, 2001

Prepared By

Deloris J. Fate, Treasurer

1717 Alum Creek Drive

Columbus, Ohio 43207



STATE OF OHIO
OFFICE OF THE AUDITOR

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Board of Education
Franklin County Educational Service Center
1717 Alum Creek Drive
Columbus, Ohio 43207-1754

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, 2000 through June 30, 2001. 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.

JIM PETRO
Auditor of State

January 7, 2002

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

JUNE 30, 2001

BOARD OF EDUCATION	
Joyce Galbraith	President
Betty Klamfoth	Vice President
Richard Hesel	Member
Robin Reid-Pleasnick	Member
Mary White	Member

Treasurer
Deloris J. Fate

ADMINISTRATION	
Frederick C. Wolfe	Superintendent
Flo Burke	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, 2001, 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 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, 2001, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2001 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 9, 2001

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GENERAL PURPOSE FINANCIAL STATEMENTS

**Franklin County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2001**

	Governmental Fund Types		Proprietary	Fiduciary	Account Groups		Totals
			Fund Types	Fund Types	General		2001
	General	Special Revenue	Internal Service	Agency Fund	General Fixed Assets	Long Term Obligations	(Memorandum (Only))
Assets and Other Debits:							
Equity in Pooled Cash and Investments	\$ 6,622,732	775,018	84,829	613,525	0	0	\$ 8,096,104
Interfund Receivables	105,171	0	0	0	0	0	105,171
Intergovernmental Receivables	955,553	0	0	16,013	0	0	971,566
Accounts Receivable	226,272	0	180	20,698	0	0	247,150
Inventory	710	0	0	0	0	0	710
Property and Equipment	0	0	0	242,647	2,194,564	0	2,437,211
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0	0	606,320	606,320
Total Assets and Other Debits	\$ 7,910,438	775,018	85,009	892,883	2,194,564	606,320	\$ 12,464,232
Liabilities:							
Interfund Payables	\$ 0	53,678	0	51,493	0	0	\$ 105,171
Intergovernmental Payable	140,668	1,908	0	4,024	0	46,109	192,709
Claims Payable	0	0	21,500	0	0	0	21,500
Accounts Payable	47,079	454,920	1,937	66,120	0	0	570,056
Accrued Salaries and Benefits	978,421	31,980	0	33,237	0	0	1,043,638
Due to Others	0	0	0	727,519	0	0	727,519
Compensated Absences Payable	72,270	54,206	0	10,490	0	560,211	697,177
Total Liabilities	1,238,438	596,692	23,437	892,883	0	606,320	3,357,770
Fund Equity and Other Credits:							
Investment in General Fixed Assets	0	0	0	0	2,194,564	0	2,194,564
Retained Earnings	0	0	61,572	0	0	0	61,572
Fund Balances:							
Reserved for Inventory	710	0	0	0	0	0	710
Reserved for Encumbrances	102,362	358,350	0	0	0	0	460,712
Unreserved Fund Balance	6,568,928	(180,024)	0	0	0	0	6,388,904
Total Fund Balances	6,672,000	178,326	0	0	0	0	6,850,326
Total Fund Balances/Retained Earnings	6,672,000	178,326	61,572	0	2,194,564	0	9,106,462
Total Liabilities, Fund Equity, and Other Credits	\$ 7,910,438	775,018	85,009	892,883	2,194,564	606,320	\$ 12,464,232

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, 2001

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Tuition	\$ 3,075,075	0	\$ 3,075,075
Earnings on Investments	477,881	0	477,881
Miscellaneous	5,214,231	0	5,214,231
Revenue from Intermediate Sources			
Restricted Grants-in-Aid	0	64,555	64,555
Revenue from State Sources			
Unrestricted Grants-in-Aid	6,409,375	695,626	7,105,001
Restricted Grants-in-Aid	26,308	599,257	625,565
Revenue from Federal Sources			
Restricted Grants-in-Aid	0	4,323,801	4,323,801
Total Revenue	15,202,870	5,683,239	20,886,109
EXPENDITURES:			
Instruction			
Regular Instruction	0	61,777	61,777
Special Instruction	5,544,588	7,485	5,552,073
Vocational Instruction	0	585,258	585,258
Supporting Services			
Supporting Services-Pupils	640,409	22,735	663,144
Supporting Services-Instructional Staff	6,794,778	1,646,948	8,441,726
Supporting Services-Board of Education	82,873	0	82,873
Supporting Services-Administration	827,250	2,549,014	3,376,264
Supporting Services-Fiscal	342,985	167,813	510,798
Supporting Services-Business	243,244	0	243,244
Operation & Maintenance of Plant	599,859	191,560	791,419
Supporting Services-Pupil Transportation	14,817	0	14,817
Supporting Services-Central	5,508	802,866	808,374
Operation of Non-Instructional Services			
Community Services	0	29,070	29,070
Total Expenditures	15,096,311	6,064,526	21,160,837
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	106,559	(381,287)	(274,728)
Other Financing Sources and Uses:			
Transfers-In	0	48,300	48,300
Refund of Prior Years' Expenditures	86,083	0	86,083
Transfers-Out	0	(37,595)	(37,595)
Refund of Prior Years' Receipts	0	(8,631)	(8,631)
Net Other Financing Sources and Uses	86,083	2,074	88,157
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure			
Disbursement and Other Uses	192,642	(379,213)	(186,571)
Beginning Fund Balance	6,479,358	557,539	7,036,897
Ending Fund Balance	\$ 6,672,000	178,326	\$ 6,850,326

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, 2001

	General Fund			Special Revenue Funds		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Tuition	\$ 2,909,223	\$ 2,909,223	0	0	0	\$ 0
Earnings on Investment	522,426	522,426	0	0	0	0
Miscellaneous	5,153,336	5,153,336	0	0	0	0
Restricted Grants-in-Aid	0	0	0	68,500	68,500	0
State Unrestricted Grants-in-Aid	6,409,375	6,409,375	0	695,626	695,626	0
State Restricted Grants-in-Aid	26,308	26,308	0	600,257	599,257	(1,000)
Federal Restricted Grants-in-Aid	0	0	0	4,323,801	4,323,801	0
Total Revenue	15,020,668	15,020,668	0	5,688,184	5,687,184	(1,000)
Expenditures:						
Regular Instruction	0	0	0	80,756	66,728	14,028
Special Instruction	5,512,353	5,422,977	89,376	22,629	10,845	11,784
Vocational Instruction	0	0	0	588,181	592,301	(4,120)
Support Services-Pupils	650,158	642,132	8,026	22,884	22,861	23
Support Services-Instructional Staff	6,899,026	6,755,889	143,137	2,100,258	1,774,712	325,546
Support Services-Board of Educ.	96,883	85,562	11,321	0	0	0
Support Services-Administration	848,224	827,659	20,565	3,095,510	2,640,687	454,823
Fiscal Services	346,078	329,614	16,464	242,498	231,120	11,378
Support Services-Business	250,625	235,228	15,397	0	0	0
Operation & Maintenance of Plant	762,918	743,417	19,501	267,792	215,682	52,110
Support Services-Pupil Transport.	18,257	15,525	2,732	0	0	0
Support Services-Central	5,735	5,528	207	915,246	844,002	71,244
Community Services	0	0	0	36,104	30,920	5,184
Total Expenditures	15,390,257	15,063,531	326,726	7,371,858	6,429,858	942,000
Excess of Revenue Over						
(Under) Expenditures	(369,589)	(42,863)	326,726	(1,683,674)	(742,674)	941,000
Other Financing Sources (Uses):						
Transfers-In	0	0	0	0	48,300	48,300
Advances-In	158,595	158,595	0	0	53,679	53,679
Refund of Prior Years' Expenditures	86,083	86,083	0	0	0	0
Transfers-Out	0	0	0	0	(48,300)	(48,300)
Advances-Out	(110,641)	(105,172)	5,469	0	(99,575)	(99,575)
Refund of Prior Years' Receipts	0	0	0	0	(8,631)	(8,631)
Total Other Sources (Uses)	134,037	139,506	5,469	0	(54,527)	(54,527)
Excess of Revenues & Other Financing						
Sources Over (Under) Expenditures						
and Other Financing Uses	(235,552)	96,643	332,195	(1,683,674)	(797,201)	886,473
Beginning Fund Balance	6,123,869	6,123,869	0	31,088	31,088	0
Prior Year Carry Over Encumbrances	259,508	259,508	0	839,794	839,794	0
Ending Fund Balance	\$ 6,147,825	6,480,020	332,195	(812,792)	73,681	\$ 886,473

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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, 2001

Totals (Memorandum Only)			
	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Tuition	\$ 2,909,223	2,909,223	\$ 0
Earnings on Investment	522,426	522,426	0
Miscellaneous	5,153,336	5,153,336	0
Restricted Grants-in-Aid	68,500	68,500	0
State Unrestricted Grants-in-Aid	7,105,001	7,105,001	0
State Restricted Grants-in-Aid	626,565	625,565	(1,000)
Federal Restricted Grants-in-Aid	4,323,801	4,323,801	0
Total Revenue	20,708,852	20,707,852	(1,000)
Expenditures:			
Regular Instruction	80,756	66,728	14,028
Special Instruction	5,534,982	5,433,822	101,160
Vocational Instruction	588,181	592,301	(4,120)
Support Services-Pupils	673,042	664,993	8,049
Support Services-Instructional Staff	8,999,284	8,530,601	468,683
Support Services-Board of Educ.	96,883	85,562	11,321
Support Services-Administration	3,943,734	3,468,346	475,388
Fiscal Services	588,576	560,734	27,842
Support Services-Business	250,625	235,228	15,397
Operation & Maintenance of Plant	1,030,710	959,099	71,611
Support Services-Pupil Transport.	18,257	15,525	2,732
Support Services-Central	920,981	849,530	71,451
Community Services	36,104	30,920	5,184
Total Expenditures	22,762,115	21,493,389	1,268,726
Excess of Revenue Over (Under) Expenditures	(2,053,263)	(785,537)	1,267,726
Other Financing Sources (Uses):			
Advances-In	158,595	212,274	53,679
Refund of Prior Years Expense	86,083	86,083	0
Advances-Out	(110,641)	(204,747)	(94,106)
Refund of Prior Years Receipt	0	(8,631)	(8,631)
Total Other Sources (Uses)	134,037	84,979	(49,058)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,919,226)	(700,558)	1,218,668
Beginning Fund Balance	6,154,957	6,154,957	0
Prior Year Carry Over Encumbrances	1,099,302	1,099,302	0
Ending Fund Balance	\$ 5,335,033	6,553,701	\$ 1,218,668

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, 2001

	Internal Service
Operating Revenues:	
Miscellaneous	\$ 199,856
Total Operating Revenue	199,856
Operating Expenses:	
Purchased Services	65,907
Insurance Expenses	185,844
Total Operating Expenses	251,751
Operating Loss	(51,895)
Net Loss	(51,895)
Beginning Retained Earnings	113,467
Retained Earnings at End of Year	\$ 61,572

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, 2001

	<u>Internal Service</u>
Cash Flows from Operating Activities	
Operating Loss	\$ (51,895)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Net (Increase) in Assets:	
Accounts Receivable	18,414
Net Increase in Liabilities:	
Accounts Payable	237
Claims Payable	1,200
Net Adjustments	19,851
Net Cash Used in Operating Activities	(32,044)
Net Decrease in Cash & Cash Equivalents	(32,044)
Cash and Cash Equivalents at Beginning of Year	116,873
Cash and Cash Equivalents at End of Year	\$ 84,829
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, 2001**

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 165 certified and 211 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, 2001**

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, 2001**

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, 2001**

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, 2001**

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, 2001.

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 2001 totaled \$477,882.

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, 2001**

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, 2001, 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. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. 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. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets less than \$300 are not capitalized. The Center does not possess any infrastructure.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets, as applicable. Assets in the general fixed assets account group and agency funds are not depreciated.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 1. Summary of Significant Accounting Policies (continued)

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

Grants and entitlements amounted to approximately 57% of the Center's operating revenue during the 2001 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, 2001, the Center had \$105,171 in interfund receivables/payables.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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, 2001 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.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 1. Summary of Significant Accounting Policies (continued)

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, 2001**

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	\$ 550,742	\$ (379,213)
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	(540,302)	3,945
Due to Expenditures:		
Net Adjustments to Expenditure Accruals	32,780	(365,332)
Due to Other Sources/Uses	53,423	(56,601)
Budget Basis	\$ 96,643	\$ (797,201)

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, 2001**

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, 2001**

Note 3. Cash and Investments (continued)

Deposits: At fiscal year end, the carrying amount of the Center's deposits was (\$2,370,226) and the bank balance was \$5,824,975. Of the balance, \$100,000 was covered by Federal Depository Insurance; and \$5,724,975 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	\$ 5,828,744	\$ 5,828,744	\$ 5,828,744
Bankers Acceptance	111,596	111,596	111,596
STAR Ohio		4,525,240	4,525,240
Total Investments		<u>\$ 10,465,580</u>	<u>\$ 10,465,580</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	\$ 8,096,104	\$ 0
Investments:		
Repurchase Agreement	(5,828,744)	5,828,744
Bankers Acceptance	(111,596)	111,596
STAR Ohio	(4,525,240)	4,525,240
Petty Cash	(750)	
GASB Statement No. 3	<u>\$ (2,370,226)</u>	<u>\$ 10,465,580</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 4. Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2001:

	General Fixed Assets June 30, 2000	Additions	Deletions	General Fixed Assets June 30, 2001
Furniture and Equipment	\$ 2,418,507	349,197	647,965	\$ 2,119,739
Vehicles	74,825	0	0	74,825
Total General Fixed Assets	\$ 2,493,332	349,197	647,965	\$ 2,194,564

The General Fixed Assets balance for June 30, 2000 was restated from \$2,489,891 to \$2,493,332. This increase of \$3,441 resulted from the addition of previously unrecorded assets.

The following is a summary of changes in the Agency Funds during the fiscal year 2001:

	Agency Fund Fixed Assets June 30, 2000	Additions	Deletions	Agency Fund Fixed Assets June 30, 2001
Furniture and Equipment	\$ 60,506	182,141	0	\$ 242,647

Note 5. Receivables

Receivables at June 30, 2001 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	\$ 584,372
Intergovernmental:	
Educational Services	955,553
Total General Fund:	<u>1,539,925</u>
<u>Internal Service Funds:</u>	
Accounts Receivable	180
Total Internal Service Funds:	<u>180</u>
<u>Agency Funds:</u>	
Accounts Receivable	20,698
Intergovernmental:	
Rehabilitation Service Commission	9,814
Alliance Grant	6,199
Total Agency Funds:	<u>\$ 36,711</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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, 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 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, 2001, 2000, and 1999 were \$853,755, \$719,655 and \$648,050 respectively; 94.98 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$45,106 representing the unpaid surcharge for fiscal year 2001, is recorded as a liability in the general long-term obligations account group.

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, 2001, 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, 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, 2001, 2000, and 1999 were \$1,046,985, \$914,838 and \$865,125, respectively; 100 percent has been contributed for fiscal years 2001, 2000 and 1999.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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 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 \$336,531 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 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, 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 Center, the amount to fund health care benefits, including surcharge, during the 2001 fiscal year equaled \$642,734.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 9. Risk Management (continued)

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.

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 \$21,500 at June 30, 2001.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 9. Risk Management (continued)

A summary of changes in self-insurance claims:

	June 30, 2001	June 30, 2000
Claim Liabilities at beginning of year	\$ 20,300	\$ 18,720
Incurred Claims	205,997	181,218
Claims Paid	(204,797)	(179,638)
Claim Liabilities at end of year	<u>\$ 21,500</u>	<u>\$ 20,300</u>

Note 10. Long-Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 2001, are as follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Intergovernmental Payable	\$ 47,387	46,109	47,387	\$ 46,109
Compensated Absences Payable	491,083	560,211	491,083	560,211
Total Long Term Obligations	<u>\$ 538,470</u>	<u>606,320</u>	<u>538,470</u>	<u>\$ 606,320</u>

Note 11. Interfund Transactions

At June 30, 2001, 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	\$ 105,171	\$ 0
Special Revenue Funds	0	53,678
Agency Funds	0	51,493
	<u>\$ 105,171</u>	<u>\$ 105,171</u>

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

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, 2001.

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, 2001.

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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

Note 15. School Funding Decision (continued)

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

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

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

Note 16. Changes in Accounting Principles and Restatement of Fund Balance

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

Note 17. Transfers In and Transfers Out

Normally transfers in and transfers out are equal, however, the Center had a transfer out of \$10,705 at June 30, 2000 that was transferred in during 2001.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2001**

<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:				
Special Education Grants to States	6B-SX-99P	84.027	\$ 137,713	\$ 127,061
	6B-SX-00P		267,101	199,048
	6B-SI-99P		275,414	369,062
	6B-SV-99P		160,310	218,950
	6B-SI-00P		1,496,033	1,316,477
	6B-SV-00P		788,416	817,372
Special Education - Preschool Grants	PG-S3-99P	84.173	7,100	14,838
	PG-S3-00P		67,095	57,546
	PG-S1-00P		51,438	51,438
	PG-S1-99P		19,373	19,373
	PG-S2-00		93,825	118,267
	PG-S2-01		275,683	271,426
	PG-S4-00		104,506	111,157
	PG-S4-01		305,678	264,029
	PG -SC-99P		2,797	4,022
	PG-S7-00		-	793
	PG-S7-01		<u>11,250</u>	<u>7,261</u>
	Total Special Education Cluster		4,063,732	3,968,120
Javits Gifted and Talented Students Education Grant Program	JG-S1-99	84.206	-	14,117
	JG-S1-00		8,800	8,758
Even Start - State Educational Agencies	EV-ST-01	84.213	10,500	24,280
Goals 2000 State and Local Education Systematic Improvement Grants	G2-TA-01	84.276	25,000	20,532
	G2-S9-00		25,000	30,220
	G2-SP-01		4,000	14,943
	G2-S5-99		-	1,046
Eisenhower Professional Development State Grants		84.281	-	-
	MS-S2-99		50,102	50,964
	MS-S2-00		74,366	65,608
	MS-S4-00		90,000	66,227
	MS-S4-99		-	17,077

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, 2001**

<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-99 DM-00	84.332	82,671 120,859	82,185 102,430
<i>U.S Department of Education/ Ohio Coalition for Education of Children with Disabilities</i>				
Parent Training and Information	OS-1875-0102	84.029M	<u>806,858</u>	<u>980,844</u>
Total U.S. Department of Education			5,361,888	5,477,351
<i>U.S. Department of Labor/ Ohio Department of Education</i>				
Jobs for Ohio Grads	JOG	94.XXX	15,000	8,960
Employment Services and Job Training - School to Work	WK-EE-99/00	94.004	<u>67,159</u>	<u>5,037</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 5,444,047</u>	<u>\$ 5,461,348</u>

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, 2001

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.

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**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, 2001, and have issued our report thereon dated November 9, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States 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*. However, we noted an immaterial instance of noncompliance that we have reported to the management of Franklin County Educational Service Center, in a separate letter dated November 9, 2001.

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. However, we noted a matter involving the internal control over financial reporting that we have reported to management of Franklin County Educational Service Center, in a separate letter dated November 9, 2001.

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 9, 2001**



**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, 2001. 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, 2001.

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 9, 2001**

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2001**

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, 2001**

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

There are no findings for the year ended June 30, 2001.

3. FINDINGS RELATED TO FEDERAL AWARDS

There are no findings for the year ended June 30, 2001.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
CONCLUSION STATEMENT
JUNE 30, 2001**

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 19, 2001.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 22, 2002**