



**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave., STE. 202
Mansfield, Ohio 44906

To the Board of Governors:

We have audited the accompanying general purpose financial statements of the Mid-Ohio Educational Service Center, Richland County, Ohio, (the ESC) 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 ESC's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the ESC as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type 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 February 8, 2002, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

February 8, 2002

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS								
ASSETS:								
Equity in pooled cash and cash equivalents	\$5,655,766	\$1,111,847	\$30	\$89,404	\$169,615			\$7,026,662
Cash in segregated accounts.				192,580				192,580
Receivables (net of allowances of uncollectibles):								
Accounts	12,779	7,556						20,335
Accrued interest	13,920							13,920
Interfund loan receivable	2,091							2,091
Due from other governments	1,065,346			4,665				1,070,011
Prepayments	6,606	45						6,651
Materials and supplies inventory	16,513							16,513
Advances to other funds.	24							24
Property, plant and equipment (net of accumulated depreciation where applicable).						\$797,899		797,899
OTHER DEBITS:								
Amount to be provided for retirement of General Long-Term Obligations.							\$312,935	312,935
Total assets and other debits	<u>\$6,773,045</u>	<u>\$1,119,448</u>	<u>\$30</u>	<u>\$286,649</u>	<u>\$169,615</u>	<u>\$797,899</u>	<u>\$312,935</u>	<u>\$9,459,621</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

--Continued

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
LIABILITIES, EQUITY AND OTHER CREDITS								
LIABILITIES:								
Accounts payable	\$660	\$36,480						\$37,140
Accrued wages and benefits.	448,664	19,869		\$2,866				471,399
Compensated absences payable.	29,007			3,963			\$243,773	276,743
Pension obligation payable	51,462	2,331		369			22,808	76,970
Interfund loan payable		1,344				\$747		2,091
Due to other governments.					156,007			156,007
Deferred revenue	504,115							504,115
Advances from other funds		24						24
Claims payable				125,813				125,813
Obligation under capital lease							46,354	46,354
Total liabilities	1,033,908	60,048		133,011	156,754		312,935	1,696,656
EQUITY AND OTHER CREDITS:								
Investment in general fixed assets.						\$797,899		797,899
Retained earnings: unreserved.				153,638				153,638
Fund balances:								
Reserved for encumbrances	1,697	143,533						145,230
Reserved for supplies inventory	16,513							16,513
Reserved for prepayments	6,606	45						6,651
Reserved for advances.	24							24
Unreserved-undesignated	5,714,297	915,822	\$30		12,861			6,643,010
Total equity and other credits.	5,739,137	1,059,400	30	153,638	12,861	797,899		7,762,965
Total liabilities, equity and other credits . .	\$6,773,045	\$1,119,448	\$30	\$286,649	\$169,615	\$797,899	\$312,935	\$9,459,621

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
From local sources:					
Tuition		\$150			\$150
Earnings on investments	\$372,120				372,120
Other local revenues	2,977,763	23,279			3,001,042
Other revenue	2,879	53,081			55,960
Intergovernmental - State	6,454,924	895,225			7,350,149
Intergovernmental - Federal	239,189	364,769			603,958
Total revenue	10,046,875	1,336,504			11,383,379
Expenditures:					
Current:					
Instruction:					
Regular		71,449			71,449
Special	1,959,889	16,255			1,976,144
Vocational		4,115			4,115
Other	1,727	174,116			175,843
Support services:					
Pupil	1,658,465	74,166			1,732,631
Instructional staff	2,709,951	1,062,093			3,772,044
Board of Education	25,283				25,283
Administration	669,003	43,573			712,576
Fiscal	229,548	30,337			259,885
Business	330,065	5,500			335,565
Operations and maintenance	21,102	1,469			22,571
Central	97,453	480			97,933
Community services	6,573	1,138		\$2,497	10,208
Extracurricular Activities		33,192			33,192
Capital outlay	13,475				13,475
Debt service:					
Principal retirement	35,883				35,883
Interest and fiscal charges	4,278				4,278
Total expenditures	7,762,695	1,517,883		2,497	9,283,075
Excess (deficiency) of revenues over (under) expenditures	2,284,180	(181,379)		(2,497)	2,100,304
Other financing sources:					
Inception of capital lease transaction	13,475				13,475
Total other financing sources	13,475				13,475
Excess (deficiency) of revenues and other financing sources over (under) expenditures	2,297,655	(181,379)		(2,497)	2,113,779
Fund balance, July 1	3,441,296	1,240,779	\$30	15,358	4,697,463
Increase in reserve for inventory	186				186
Fund balance, June 30	\$5,739,137	\$1,059,400	\$30	\$12,861	\$6,811,428

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	General Fund			Special Revenue			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:												
From local sources:												
Tuition.....	\$55,547	\$34,962	(\$20,585)	\$250	\$150	(\$100)				\$55,797	\$35,112	(\$20,685)
Earnings on investments.....	297,444	371,420	73,976							297,444	371,420	73,976
Other local revenues.....	1,170,572	2,495,378	1,324,806	27,949	22,779	(5,170)				1,198,521	2,518,157	1,319,636
Other revenue.....				71,117	63,561	(7,556)				71,117	63,561	(7,556)
Intergovernmental - State.....	4,269,336	6,454,924	2,185,588	916,802	895,224	(21,578)				5,186,138	7,350,148	2,164,010
Intergovernmental - Federal.....	215,958	239,189	23,231	345,297	364,767	19,470				561,255	603,956	42,701
Total revenues.....	<u>6,008,857</u>	<u>9,595,873</u>	<u>3,587,016</u>	<u>1,361,415</u>	<u>1,346,481</u>	<u>(14,934)</u>				<u>7,370,272</u>	<u>10,942,354</u>	<u>3,572,082</u>
Expenditures:												
Current:												
Instruction:												
Regular.....				100,232	89,556	10,676				100,232	89,556	10,676
Special.....	2,182,382	1,899,948	282,434	26,321	18,737	7,584				2,208,703	1,918,685	290,018
Vocational.....				18,200	4,116	14,084				18,200	4,116	14,084
Other.....				260,283	169,430	90,853				260,283	169,430	90,853
Support services:												
Pupil.....	1,767,739	1,623,620	144,119	73,687	67,033	6,654				1,841,426	1,690,653	150,773
Instructional staff.....	3,216,564	2,723,227	493,337	1,970,773	1,198,212	772,561	\$8,154	\$8,154	\$0	5,195,491	3,929,593	1,265,898
Board of Education.....	39,892	24,973	14,919							39,892	24,973	14,919
Administration.....	737,284	667,428	69,856	45,192	42,905	2,287				782,476	710,333	72,143
Fiscal.....	254,507	232,947	21,560	50,902	30,638	20,264				305,409	263,585	41,824
Business.....	444,338	373,746	70,592	22,000	22,000	0				466,338	395,746	70,592
Operation and Maintenance.....	40,000	23,231	16,769	4,419	4,419	0				44,419	27,650	16,769
Central.....	122,771	96,610	26,161	480	480	0				123,251	97,090	26,161
Community services.....	9,815	6,778	3,037	1,660	1,659	1				11,475	8,437	3,038
Facilities services.....			0	33,192	33,192	0				33,192	33,192	0
Total expenditures.....	<u>8,815,292</u>	<u>7,672,508</u>	<u>1,142,784</u>	<u>2,607,341</u>	<u>1,682,377</u>	<u>924,964</u>	<u>8,154</u>	<u>8,154</u>	<u>0</u>	<u>11,430,787</u>	<u>9,363,039</u>	<u>2,067,748</u>
Excess (deficiency) of revenues over (under) expenditures.....	(2,806,435)	1,923,365	4,729,800	(1,245,926)	(335,896)	910,030	(8,154)	(8,154)	0	(4,060,515)	1,579,315	5,639,830
Other financing sources (uses):												
Refund of prior year's expenditures.....		20,533	20,533	500	500	0				500	21,033	20,533
Advances in.....	8,575	8,551	(24)		1,344	1,344				8,575	9,895	1,320
Advances (out).....	(2,091)	(2,091)	0	(8,575)	(8,551)	24				(10,666)	(10,642)	24
Pass-through.....	(900,353)		900,353			0				(900,353)	0	900,353
Total other financing sources (uses).....	<u>(893,869)</u>	<u>26,993</u>	<u>920,862</u>	<u>(8,075)</u>	<u>(6,707)</u>	<u>1,368</u>				<u>(901,944)</u>	<u>20,286</u>	<u>922,230</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)....	(3,700,304)	1,950,358	5,650,662	(1,254,001)	(342,603)	911,398	(8,154)	(8,154)	0	(4,962,459)	1,599,601	6,562,060
Fund balance, July 1.....	3,691,770	3,691,770	0	1,212,693	1,212,693	0	8,154	8,154	0	4,912,617	4,912,617	0
Prior year encumbrances appropriated.....	8,534	8,534	0	41,308	41,308	0				49,842	49,842	0
Fund balance, June 30.....	<u>\$0</u>	<u>\$5,650,662</u>	<u>\$5,650,662</u>	<u>\$0</u>	<u>\$911,398</u>	<u>\$911,398</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$6,562,060</u>	<u>\$6,562,060</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Type
	Internal Service
Operating revenues:	
Tuition and fees	\$88,655
Sales/charges for services.	528,427
Other operating revenues	39,011
Total operating revenues.	656,093
Operating expenses:	
Personal services	87,987
Contract services	32,318
Materials and supplies	3,947
Claims expense	489,109
Total operating expenses	613,361
Operating income.	42,732
Nonoperating revenues:	
Operating grants	4,000
Interest revenue.	6,311
Total nonoperating revenues	10,311
Net income.	53,043
Retained earnings, July 1	100,595
Retained earnings, June 30	\$153,638

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Type
	Internal Service
Cash flows from operating activities:	
Cash received from tuition and fees	\$58,750
Cash received from sales/service charges	528,427
Cash received from other operations.	38,834
Cash payments for personal services.	(84,483)
Cash payments for contract services	(32,318)
Cash payments supplies and materials	(3,947)
Cash payments for claims expenses	(458,112)
Net cash provided by operating activities.	47,151
Cash flows from noncapital financing activities:	
Cash received from operating grants.	4,000
Cash flows from investing activities:	
Interest received	6,311
Net increase in cash and cash equivalents	57,462
Cash and cash equivalents at beginning of year.	224,522
Cash and cash equivalents at end of year	\$281,984
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$42,732
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in due from other governments	(352)
Increase in accrued wages & benefits.	298
Increase in compensated absences payable	2,837
Increase in pension obligation payable	369
Increase in claims payable	30,997
Decrease in deferred revenue	(29,730)
Net cash provided by operating activities	\$47,151

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996.

County Boards of Education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished County Boards of Education. That legislation also changed the "Board of Education" to the "Governing Board".

The ESC is located at 1495 W. Longview Ave., Suite 202, Mansfield, in offices provided by the Richland County Commissioners, as provided by Ohio Revised Code 3319.19. The Governing Board consists of seven members, five of which are elected by the voters of Richland County, and one each from Crawford and Morrow County. This Governing Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 69 non-certificated employees and 109 certificated (including administrative) employees to provide services to approximately 28,664 students throughout Crawford, Morrow, and Richland counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the ESC 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 ESC's significant accounting policies are described below.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities. Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the ESC (the primary government). The ESC has no component units. The following organizations are described due to their relationship to the ESC.

Jointly Governed Organizations:

Business Advisory Councils of Crawford, Morrow, and Richland Counties

The ESC shall appoint a Business Advisory Council (the "Councils") in accordance with Ohio Revised Code, Section 3313.174. The purpose of the Councils shall be to provide insight, generate suggestions, and promote a positive relationship between the ESC and the communities it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within the ESC's financial means, in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. The Reporting Entity - (Continued)

Jointly Governed Organizations: - (Continued)

The Councils shall be composed of an optional number of members as determined by the ESC Superintendent. The membership may be selected from the fields of commercial, industrial, service, agricultural and governmental agencies. Consideration may also be given to one citizen representative from each of the local districts. Each local superintendent may also serve as an "ex officio" member. The ESC Superintendent, or his designee, shall serve as the chairman of the Councils.

The Superintendent of the ESC shall develop administrative guidelines which will ensure that the time and efforts of the Councils and those of the professional staff are utilized properly to accomplish these educational outcomes and to provide for a continued, strong working relationship between the school community, the Councils, and the larger community of employers.

The ESC has no ongoing financial interest or financial responsibility to the Councils.

Pioneer Career and Technology Center

The Pioneer Career and Technology Center, a Vocational School District, is a distinct political subdivision of the State of Ohio, operated under the direction of an 11 member Board of Education, which consists of one representative from each of the participating school district's elected board. Pioneer possesses its own budgeting and taxing authority. Financial information is available from the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Pioneer Career and Technology Center.

Tri Rivers Joint Vocational School

The Tri Rivers Joint Vocational School (the "JVS") is a district political subdivision of the State of Ohio. The JVS is operated under the direction of a Board of Education, which consists of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the JVS.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. The Reporting Entity - (Continued)

Joint Venture Without Equity Interest:

Heartland Council of Governments

Heartland Council of Governments (Heartland) is a joint venture among 16 member school districts and one educational service center. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the member districts pays Heartland a per pupil, per year charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or net assets in a ratio proportionate to their last 12 months' financial contributions. Heartland is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have an equity interest in Heartland because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information is available from Jerry Payne, Treasurer for the Pioneer Career and Technology Center (fiscal agent), at 27 Ryan Road, Shelby, Ohio 44875-0309.

Potential Component Units Reported as Agency Funds:

Crawford County Family and Children First Council
North Central Regional Professional Development Center
Mid-Ohio Early Intervention Collaborative Group
School Study Council of Ohio
Richland County Solid Waste Authority
Richland Alternative School
Satellite V Media Center

The ESC is also a participant in a public entity risk sharing pool, described in Note 10.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Several of the educational programs operated by the ESC provide certain services to the general public. The Longview Technology Collaborative Fund and The NCOCC/MOESC Partnership Fund are classified within the General Fund for GAAP. Funds are classified into three categories: Governmental, Proprietary, and Fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in Proprietary funds) are accounted for through Governmental Funds. The following are the ESC's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the ESC 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 ESC for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

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

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting - (Continued)

PROPRIETARY FUNDS

Proprietary Funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following is the ESC's Proprietary Fund Type:

Internal Service Funds - Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the ESC, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported on a cash basis, with note disclosure regarding items which, in other fund types, would be subject to accrual.

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 ESC.

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental and Expendable Trust funds are accounted for using a 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 (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

The modified accrual basis of accounting is followed for all Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent they are intended to finance the current fixed year), and accounts.

The ESC reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the ESC before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus/Basis of Accounting - (Continued)

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental funds.

The Proprietary Fund is accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

D. Budgets

An Educational Service Center is required by state Statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

The ESC legally 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 ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets - (Continued)

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

The ESC 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 served by the ESC, 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 ESC by \$37. This amount is provided from State Resources.

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC 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 ESC 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 districts approve or disapprove the additional apportionment.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets - (Continued)

Appropriations:

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2001 in the following amounts:

	<u>Increase</u>
General Fund	\$3,703,859
Special Revenue Funds	997,898
Internal Service Funds	<u>77,156</u>
Total, All Funds	<u>\$4,778,913</u>

Unencumbered appropriations revert to the respective fund from which they were appropriated and become subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated Governmental Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. Note 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds, including the Proprietary Fund, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Although the ESC is fiscal agent for several entities which are not part of the reporting entity as described in Note 2.A, the ESC does not operate an external investment pool, because interest revenue is not allocated to these Agency Funds.

During 2001, investments were limited to STAR Ohio, repurchase agreements, certificates of deposit, and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at 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.

The ESC assigns investment earnings to the General Fund and the Self-Insurance Fund, as permitted by Ohio statute. The General Fund was credited more interest than would have been received based upon its share of the ESC's investments during fiscal 2001, as follows:

	<u>Interest Actually Received</u>	<u>Interest Based upon Share of Investments</u>	<u>Interest Assigned from Other Funds</u>
General Fund	\$372,120	\$283,606	\$88,514
Internal Service Fund	6,311	6,884	(573)

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

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

G. Prepaids

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

H. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than three years. 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. No depreciation is recognized for assets in the General Fixed Assets Account Group. The ESC has not included infrastructure in the General Fixed Assets Account Group.

The ESC has no Proprietary Fund fixed assets.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Intergovernmental Revenues

In Governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. The ESC currently participates in various state and federal programs categorized as follows:

<u>Entitlements</u>	<u>Non-Reimbursable Grants - (continued)</u>
<u>General Fund</u>	<u>Special Revenue Funds - (continued)</u>
State Foundation Program	Education for Economic Security
	Preschool for the Handicapped
	Adult Basic Education
<u>Non-Reimbursable Grants</u>	Drug Free School
<u>Special Revenue Funds</u>	Mentor Program
Urban Pilot Projects	Career Enhancement
Professional Development	Alternative Education Challenge Grant
Early Childhood Education	Eisenhower Grant
Gifted Education	
Entry Year Programs	
Management Information Systems	<u>Capital Projects Fund</u>
Goals 2000	Technology Equity

Grants and entitlements amounted to approximately 66% of the ESC's operating revenue during the 2001 fiscal year.

J. Compensated Absences

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences - (Continued)

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick pay on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years' service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

Accumulated vacation and sick pay liabilities of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental Fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. 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, compensated absences and contractually required pension contributions 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. Payments made more than 60 days after year-end are generally considered not to have been paid with current available financial resources. Capital leases are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by Proprietary funds are reported as liabilities in the appropriate Proprietary fund.

L. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepaid assets, long-term advances, and materials and supplies inventory. The unreserved portions of fund equity reflected for the Governmental funds are available for use within the specific purposes of those funds.

M. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency Funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Interfund Transactions - (Continued)

4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC's interfund transactions for fiscal year 2001 is presented in Note 5.

N. Statement of Cash Flows

In September 1989, the GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The ESC has presented a Statement of Cash Flows for its Internal Service funds. For purposes of the Statement of Cash Flows, the ESC considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase) and all investments of the cash management pool.

O. Financial Reporting for Proprietary and Similar Fund Types

The ESC's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This Statement is effective for financial statements beginning after December 15, 1993. The ESC accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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.

Q. Memorandum Only - Total Columns

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, results of operations, or changes in financial position 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. In accordance with this statement, certain types of revenue received by the ESC for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions may have been reported in a manner inconsistent with prior fiscal years; however, the adoption of this statement had no effect on fund balances/retained earnings as previously reported by the ESC at June 30, 2000.

B. Agency Funds

The following represent accruals for the Agency Funds, which, in another fund type, would be recognized on the combined balance sheet:

ASSETS

Due From Other Governments	\$ 4,755
Accounts Receivable	12,089

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

	<u>Deficit Fund Balance</u>
<u>Special Revenue Funds</u>	
Early Childhood Education	\$(1,299)

This deficit, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General Fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 ESC, 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 in Segregated Accounts: At year end, \$192,580 was on deposit in the ESC's self-insurance account; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end the carrying amount of the ESC's deposits was \$1,215,414 and the bank balance was \$2,314,000 (both amounts are exclusive of payroll clearance accounts, but include \$2,264,000 in non-negotiable certificates of deposit). Of the bank balance:

1. \$1,414,000 was covered by federal deposit insurance.
2. \$900,000 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC held to a successful claim by the FDIC.

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements		\$481,440	\$ 481,440
Federal Agency Security	\$100,324		100,324
Not Subject to Categorization:			
Investment in State			
Treasurer's Investment Pool	_____	_____	<u>5,229,484</u>
Total Investments	<u>\$100,324</u>	<u>\$481,440</u>	<u>\$5,811,248</u>

The classification of cash, cash equivalents, and investments on the combined balance sheet is based on criteria set forth in GASB statement No. 9 entitled, Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,026,662	
Investments of the Cash		
Management Pool:		
Federal Agency Security	(100,324)	\$ 100,324
State Treasurer's Investment Pool	(5,229,484)	5,229,484
Repurchase Agreement	<u>(481,440)</u>	<u>481,440</u>
GASB Statement No. 3	<u>\$ 1,215,414</u>	<u>\$5,811,248</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2001, consist of the following individual fund loans receivable and payable:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan (Payable)</u>
General Fund	\$2,091	
<u>Special Revenue Funds</u>		
Early Childhood Education		\$(1,344)
<u>Agency Funds</u>		
District Agency	—	(747)
Total Interfund Loans	<u>\$2,091</u>	<u>\$(2,091)</u>

B. Interfund balances at June 30, 2001, consist of the following long-term advances:

	<u>Advanced to Other Funds</u>	<u>Advanced (from) Other Funds</u>
General Fund	\$24	
<u>Special Revenue Funds</u>		
Miscellaneous Federal Grants	—	\$(24)
Total Long-term Advances	<u>\$24</u>	<u>\$(24)</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001, consisted of accounts, accrued interest and intergovernmental amounts intended to finance fiscal 2001. A summary of principal items of receivables are as follows:

	<u>Amounts</u>
<u>General Fund</u>	
Due from other governments	\$1,065,346
Interfund loan	2,091
Accrued interest	13,920
Accounts	12,779
<u>Special Revenue Fund</u>	
Accounts	\$7,556
<u>Internal Service Fund</u>	
Due from other governments	\$4,665

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 7 - FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Furniture/Equipment	<u>\$774,278</u>	<u>\$36,288</u>	<u>\$(12,667)</u>	<u>\$797,899</u>

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the ESC has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, Accounting for Leases, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. New leases are accounted for as a capital outlay expenditure and other financing source in the General Fund. Capital lease payments are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount of \$206,158, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2001 fiscal year totaled \$35,883. This amount is reflected as debt service principal retirement in the General Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2001:

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

General Long-Term Obligations Account Group

Year Ending <u>June 30</u>	<u>Copiers</u>
2002	\$26,592
2003	12,672
2004	7,443
2005	3,714
2006	<u>3,405</u>
Total Future Minimum Lease Payments	53,826
Less: Amount Representing Interest	<u>(7,472)</u>
Present Value of Future Minimum Lease Payments	<u>\$46,354</u>

The ESC does not have capitalized lease obligations after fiscal year 2006.

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid.

	Balance <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2001</u>
Compensated Absences	\$168,556	\$ 97,952	\$(22,735)	\$243,773
Pension Obligation Payable	15,681	22,808	(15,681)	22,808
Capital Lease Obligation	<u>68,762</u>	<u>13,475</u>	<u>(35,883)</u>	<u>46,354</u>
Total	<u>\$252,999</u>	<u>\$134,235</u>	<u>\$(74,299)</u>	<u>\$312,935</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 10 - RISK MANAGEMENT

The ESC 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 ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured.

The ESC has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$75,000 for each health benefits claim. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Gallagher Benefits Administrators. Through OME-RESA, the ESC purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

All funds of the ESC participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The ESC's independent third-party administrator has actuarially determined that \$125,813 is a good and sufficient provision for all unmatured claim obligations (including both reported but unpaid claims and incurred but not reported claims, as well as an allowance for claim settlement expenses on the estimated unpaid claims) as of June 30, 2001. This amount is non-discounted and is based upon historical claims experience.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$125,813 reported in the Fund at June 30, 2001, is based on the provisions of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount during fiscal 2001 and available prior years are as follows:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2000 - 2001	\$94,816	\$489,109	\$458,112	\$125,813
1999 - 2000	57,673	508,052	470,909	94,816
1998 - 1999	45,389	366,545	354,261	57,673

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2001, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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 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.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14 percent for 2001; 4.2 percent was the portion to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the SERS Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$208,510, \$160,553, and \$112,153, respectively; 100% has been contributed for each fiscal year.

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System - (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC 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 the STRS Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000 and 1999 were \$637,683, \$612,497, and \$545,016, respectively; 100% has been contributed for each fiscal year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2001, three members of the Board of Governors have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and 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.

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$204,970 during the 2001 fiscal year.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 was established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$168,765 during the 2001 fiscal year.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental Funds (GAAP basis).

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

	Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget Basis	\$1,950,358	\$(342,603)	\$(8,154)
Net Adjustment for Revenue Accruals	451,002	(9,977)	
Net Adjustment for Expenditure Accruals	(90,622)	(21,252)	8,154
Net Adjustment for Other Financing Sources	(13,518)	6,707	
Net Adjustment for Reclassification of Funds	(1,262)	(10,163)	
Encumbrances (Budget Basis)	<u>1,697</u>	<u>195,909</u>	<u> </u>
GAAP Basis	<u><u>\$2,297,655</u></u>	<u><u>\$(181,379)</u></u>	<u><u>\$ 0</u></u>

NOTE 14 - RELATED PARTY TRANSACTIONS

During fiscal 2001, the ESC spent a total of \$20,232 of Eisenhower Funds on behalf of school districts in Crawford, Morrow and Richland Counties.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 15 - CONTINGENT LIABILITIES

A. Grants

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

B. Litigation

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

C. 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.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 8, 2002, 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.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 15 - CONTINGENT LIABILITIES - (Continued)

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

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

NOTE 16 - SUBSEQUENT EVENT

New Board member, Scott Shaffer, was sworn in on July 17, 2001; he filled the vacancy left by Dr. Milton Shaffer.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA #	Pass-through Agency Awarding Number	Receipts	Expenditures
United States Department of Agriculture				
Passed Through the Ohio Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	123521-05-PU-2000	\$3,512	\$3,512
National School Lunch Program	10.555	123521-04-PU-2000	5,530	5,530
Child and Adult Care Food Program	10.558	N/A	<u>5,916</u>	<u>5,916</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster			14,958	14,958
United States Department of Education				
Passed Through the Ohio Department of Education:				
Adult Education -State Grant Program	84.002	123521-AB-S1-01 123521-AB-S1-00	42,179 <u>20,000</u>	40,474 <u>16,223</u>
Total Adult Education - State Grant Program			62,179	56,697
Special Education Cluster:				
Special Education - Preschool Grants	84.173	123521-PG-S1-01 P 123521-PG-S1-99 P	36,753 <u>0</u>	32,796 <u>4,189</u>
Total Special Education - Preschool Grants (Special Education Cluster)			36,753	36,985
Fund for the Improvement of Education	84.215	123521-CJ-S1-01	1,250	150
Vocational Education - Basic Grants to States	84.048	123521-20-AO-02 123521-20-AO-01	25,000 <u>20,000</u>	0 <u>5,789</u>
Total Vocational Education - Basic Grants to States			45,000	5,789
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	123521-G2-S3-01 123521-G2-S2-01 123521-G2-S3-00	84,000 54,318 <u>0</u>	76,896 52,675 <u>12,067</u>
Total Goals 2000 - State and Local Education Systemic Improvement Grants			138,318	141,638
Eisenhower Professional Development State Grants	84.281	123521-MS-S4-00/01 123521-MS-S1-99 P 123521-MS-S1-99	76,494 0 <u>0</u>	38,147 6,748 <u>13,484</u>
Total Eisenhower Professional Development State Grants			76,494	58,379
Reading Excellence	84.338	123521-RN-A1-00	0	1,954
Passed through Ohio Department of Health:				
Special Education - Grants for Infants and Families with Disabilities	84.181	17501FAN392 17501FAN392 17501FAN392	19,036 5,498 <u>55,350</u>	25,011 8,023 <u>56,693</u>
Total Special Education - Grants for Infants and Families with Disabilities			<u>79,884</u>	<u>89,727</u>
Total U.S. Department of Education			439,878	391,319
United States Department of Health and Human Services				
Passed through Ohio Department of Mental Retardation and Developmental Disabilities:				
Medical Assistance Program	93.778	FY 01	<u>224,231</u>	<u>224,231</u>
Total U.S. Department of Health and Human Services			<u>224,231</u>	<u>224,231</u>
Total			<u>\$679,067</u>	<u>\$630,508</u>

The accompanying note to this schedule is an integral part of this schedule.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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

SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the ESC's federal awards programs. The Schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave., STE. 202
Mansfield, Ohio 44906

To the Board of Governors:

We have audited the general purpose financial statements of the Mid-Ohio Educational Service Center, Richland County, Ohio, (the ESC) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the ESC in a separate letter dated February 8, 2002.

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

Jim Petro
Auditor of State

February 8, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave., STE. 202
Mansfield, Ohio 44906

To the Board of Governors:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

February 8, 2002

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any material reported non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medical Assistance Program CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND 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
MARCH 7, 2002**