



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Knox County, Ohio, as of June 30, 2003, and the results of its operations and the cash flows of its nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 31, 2003

Knox County Educational Service Center
Combined Balance Sheet
All Fund Types and Account Groups
For the Fiscal Year Ended June 30, 2003

	Governmental Fund Types		Fiduciary Fund Types		Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Debt		
					General	Term Debt	
Assets and Other Debits							
Equity in Pooled Cash and Cash Equivalents	\$1,389,179	\$94,057	\$324,743	\$0	\$0	\$0	\$1,807,979
Intergovernmental Receivable	252,112	0	0	0	0	0	252,112
Fixed Assets	0	0	0	134,579	0	0	134,579
Other Debits:							
Provided from General Government Resources	0	0	0	0	71,527	0	71,527
Total Assets and Other Debits	\$1,641,291	\$94,057	\$324,743	\$134,579	\$71,527	\$0	\$2,266,197
Liabilities							
Accounts Payable	\$1,278	\$0	\$0	\$0	\$0	\$0	\$1,278
Accrued Wages and Benefits	241,358	11,768	0	0	0	0	253,126
Compensated Absence Payable	21,622	0	0	0	51,777	0	73,399
Intergovernmental Payable	32,977	1,822	0	0	19,750	0	54,549
Deferred Revenue	0	0	0	0	0	0	0
Undistributed Monies	0	0	313,603	0	0	0	313,603
Total Liabilities	297,235	13,590	313,603	0	71,527	0	695,955
Fund Equity and Other Credits							
Investment in General Fixed Assets	0	0	0	134,579	0	0	134,579
Fund Balances:							
Reserved for Encumbrances	8,892	2,426	0	0	0	0	11,318
Reserved for Endowment	0	0	9,081	0	0	0	9,081
Unreserved, Undesignated	1,335,164	78,041	2,059	0	0	0	1,415,264
Total Fund Equity and Other Credits	1,344,056	80,467	11,140	134,579	0	0	1,570,242
Total Liabilities, Fund Equity and Other Credits	\$1,641,291	\$94,057	\$324,743	\$134,579	\$71,527	\$0	\$2,266,197

See accompanying notes to the general purpose financial statements

Knox County Educational Service Center
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003

	General	Special Revenue	Totals (Memorandum Only)
Revenues			
Intergovernmental	\$1,725,360	\$201,693	\$1,927,053
Interest	19,182	0	19,182
Tuition and Fees	98,139	0	98,139
Extracurricular Activities	0	4,478	4,478
Gifts and Donations	686	24,782	25,468
Customer Services	2,226,756	0	2,226,756
Miscellaneous	8,586	0	8,586
Total Revenues	<u>4,078,709</u>	<u>230,953</u>	<u>4,309,662</u>
Expenditures			
Current:			
Instruction:			
Regular	15,004	72,967	87,971
Special	2,217,454	52,146	2,269,600
Adult/Continuing	277	0	277
Support Services:			
Pupils	682,339	0	682,339
Instructional Staff	451,168	134,369	585,537
Board of Education	16,740	0	16,740
Administration	201,767	3,182	204,949
Fiscal	76,213	3,180	79,393
Operation and Maintenance of Plant	35,743	3,183	38,926
Central	1,730	0	1,730
Extracurricular Activities	0	5,583	5,583
Total Expenditures	<u>3,698,435</u>	<u>274,610</u>	<u>3,973,045</u>
Excess of Revenues Over (Under) Expenditures	380,274	(43,657)	336,617
Fund Balances Beginning of Year	<u>963,782</u>	<u>124,124</u>	<u>1,087,906</u>
Fund Balances End of Year	<u><u>\$1,344,056</u></u>	<u><u>\$80,467</u></u>	<u><u>\$1,424,523</u></u>

See accompanying notes to the general purpose financial statements

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Knox County Educational Service Center
*Combined Statement of Revenues, Expenditures
and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003*

	General Fund		Variance
	Revised Budget	Actual	Favorable (Unfavorable)
Revenues			
Intergovernmental	\$1,590,267	\$1,590,267	\$0
Interest	19,182	19,182	0
Tuition and Fees	124,586	124,586	0
Extracurricular Activities	0	0	0
Gifts and Donations	686	686	0
Customer Services	2,473,338	2,473,338	0
Miscellaneous	8,586	8,586	0
Total Revenues	<u>4,216,645</u>	<u>4,216,645</u>	<u>0</u>
Expenditures			
Current:			
Instruction:			
Regular	38,000	15,004	22,996
Special	3,125,118	2,209,646	915,472
Adult/Continuing	8,300	277	8,023
Support Services			
Pupils	818,398	664,063	154,335
Instructional Staff	557,995	454,466	103,529
Board of Education	34,200	20,940	13,260
Administration	329,191	203,711	125,480
Fiscal	93,513	76,727	16,786
Operation and Maintenance of Plant	43,383	35,747	7,636
Pupil Transportation	1,000	0	1,000
Central	3,000	1,230	1,770
Operation of Non-Instructional Services	10,000	0	10,000
Extracurricular Activities	0	0	0
Total Expenditures	<u>5,062,098</u>	<u>3,681,811</u>	<u>1,380,287</u>
Excess of Revenues Over (Under) Expenditures	(845,453)	534,834	1,380,287
Other Financing Uses			
Refund of Prior Year's Receipt	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures and Other Financing Uses	(845,453)	534,834	1,380,287
Fund Balances Beginning of Year	842,306	842,306	0
Prior Year Encumbrances Appropriated	<u>3,147</u>	<u>3,147</u>	<u>0</u>
Fund Balances at End of Year	<u><u>\$0</u></u>	<u><u>\$1,380,287</u></u>	<u><u>\$1,380,287</u></u>

See accompanying notes to the general purpose financial statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$228,179	\$228,179	\$0	\$1,818,446	\$1,818,446	\$0
0	0	0	19,182	19,182	0
0	0	0	124,586	124,586	0
4,478	4,478	0	4,478	4,478	0
24,782	24,782	0	25,468	25,468	0
0	0	0	2,473,338	2,473,338	0
0	0	0	8,586	8,586	0
<u>257,439</u>	<u>257,439</u>	<u>0</u>	<u>4,474,084</u>	<u>4,474,084</u>	<u>0</u>
76,505	72,597	3,908	114,505	87,601	26,904
60,146	51,803	8,343	3,185,264	2,261,449	923,815
0	0	0	8,300	277	8,023
0	0	0	818,398	664,063	154,335
217,328	144,249	73,079	775,323	598,715	176,608
0	0	0	34,200	20,940	13,260
3,182	3,182	0	332,373	206,893	125,480
3,180	3,180	0	96,693	79,907	16,786
0	3,183	(3,183)	43,383	38,930	4,453
0	0	0	1,000	0	1,000
0	0	0	3,000	1,230	1,770
0	0	0	10,000	0	10,000
15,067	5,583	9,484	15,067	5,583	9,484
<u>375,408</u>	<u>283,777</u>	<u>91,631</u>	<u>5,437,506</u>	<u>3,965,588</u>	<u>1,471,918</u>
(117,969)	(26,338)	91,631	(963,422)	508,496	1,471,918
<u>(3,519)</u>	<u>(3,519)</u>	<u>0</u>	<u>(3,519)</u>	<u>(3,519)</u>	<u>0</u>
(121,488)	(29,857)	91,631	(966,941)	504,977	1,471,918
118,578	118,578	0	960,884	960,884	0
<u>2,910</u>	<u>2,910</u>	<u>0</u>	<u>6,057</u>	<u>6,057</u>	<u>0</u>
<u>\$0</u>	<u>\$91,631</u>	<u>\$91,631</u>	<u>\$0</u>	<u>\$1,471,918</u>	<u>\$1,471,918</u>

Knox County Educational Service Center
Statement of Revenues, Expenses and Changes in Fund Balance
Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	<u>Nonexpendable Trust</u>
Operating Revenues	
Interest	\$158
 <i>Fund Balance Beginning of Year</i>	 <u>10,982</u>
 <i>Fund Balance End of Year</i>	 <u><u>\$11,140</u></u>

See accompanying notes to the general purpose financial statements

Knox County Educational Service Center
Statement of Cash Flows
Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	<u>Nonexpendable Trust</u>
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows from Investing Activities	
Interest on Investments	<u>\$158</u>
<i>Net Increase in Cash and Cash Equivalents</i>	158
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>10,982</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$11,140</u></u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>	
<i>Operating Income</i>	\$158
Adjustments:	
Interest Received by Nonexpendable Trust Fund	(158)
	<u> </u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$0</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Trust and Agency	\$324,743
Less: Agency	313,603
	<u> </u>
Nonexpendable Trust Fund	<u><u>\$11,140</u></u>

See accompanying notes to the general purpose financial statements

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Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 – Description of the Knox County Educational Service Center

On July 18, 1914, the Knox County Educational Service Center ("Educational Service Center") was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to area school districts.

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and federal agencies. The Board controls the Educational Service Center's support facilities staffed by 89 non-certificated 51 certificated teaching personnel, and seven administrators who provide services to 8,337 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

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

The Educational Service Center participates in three jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 15 and 16 to the general-purpose financial statements. These organizations include the Knox County Career Center, Tri-Rivers Educational Computer Association, North Central Ohio Special Education Regional Resource Center and the Ohio School Boards Association Workers' Compensation Group Rating Program.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group 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.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

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

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

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

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency.

Nonexpendable Trust Fund The nonexpendable trust fund is used to account for the Educational Service Center's ongoing activities, which are similar to those, found in the private sector. The principal of the trust must be preserved intact.

Agency Funds Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The Educational Service Center's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

General Fixed Assets Account Group This account group is established to account for all fixed assets of the Educational Service Center except those accounted for in the trust fund.

General Long-Term Obligations Account Group This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the trust fund.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Measurement Focus and Basis of Accounting

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

The nonexpendable trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

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

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, interest, and customer services.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue.

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

C. Budgetary Data

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's 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 fiscal year. The estimated resources may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenditures of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Department of Education reviews the budget and certifies to each Board of Education, under the supervision of the Educational Service Center, the amount from part (B) that is to be apportioned to their school district.

Appropriations The annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The 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 Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations, and do not exceed the certificate of estimated resources that was in effect at the time the final appropriation was passed. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

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

D. Cash and Cash Equivalents

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

Investments are reported at fair market value, which is based on quoted market prices.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003. STAROhio is an investment pool management by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$19,182, which includes \$4,323 assigned from other Educational Service Center funds.

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

E. Inventory

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

Since the inventory balance at June 30, 2003 was not significant, an amount was not reported on the combined balance sheet.

F. Pass-Through Grants

The Educational Service Center is the primary recipient of grants, which are passed-through to or spent on-behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local district in the County are reported in an agency fund.

G. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Interest incurred during the construction of general fixed assets is also not capitalized. Assets in the general fixed assets account group are not depreciated.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

H. Compensated Absences

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and contractually required pension contributions 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. In general, payments made more than sixty days after year-end are considered not to have been made with current available financial resources.

J. Interfund Transactions

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

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

K. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and for the endowment, which cannot be spent in the nonexpendable trust fund.

L. Estimates

The preparation of the 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.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

M. Total Columns on General Purpose Financial Statements

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

Note 3 – Fund Deficits

The following fund had a deficit fund balance on June 30, 2003. The alternative center grant special revenue fund had a deficit fund balance of \$1,145.

The deficit in the alternative center grant special revenue fund resulted from the recognition of liabilities in accordance with generally accepted accounting principles. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 4 - Budgetary Basis of Accounting

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

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Activity for the Nonexpendable Trust Fund is not required to be budgeted, therefore no reconciliation is shown.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Excess of Revenues Over/Under Expenditures		
All Governmental Fund Types		
	General	Special Revenue
GAAP Basis	\$380,274	(\$43,657)
Net Adjustment for Revenue Accruals	137,936	26,486
Net Adjustment for Expenditure Accruals	25,516	(10,260)
Adjustment for Encumbrances	(8,892)	(2,426)
Budget Basis	\$534,834	(\$29,857)

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five-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 or deposit accounts including pass book accounts.

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

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 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

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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 a least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements."

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$286,644 and the bank balance was \$391,139. \$100,000 of the bank balance was covered by federal depository insurance. \$291,139 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the FDIC.

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

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Educational Service Center's name. StarOhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The School District's investment in STAROhio had a fair value of \$1,521,335 at June 30, 2003.

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental entities that use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No.3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,807,979	\$0
Investments, which are part of a cash management pool: STAROhio	(1,521,335)	1,521,335
GASB Statement 3	<u>\$286,644</u>	<u>\$1,521,335</u>

Note 6 - Receivables

Receivables at June 30, 2003, consisted of intergovernmental monies. All receivables are considered collectible because of the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
<i>General Fund:</i>	
CAFS	\$135,093
Customer Services	114,399
Tuition	<u>2,620</u>
Total Intergovernmental Receivables	<u>\$252,112</u>

Note 7 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. This funding is provided from State resources.

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

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

all of the school districts served by the Educational Service Center through additional deductions in their resources provided through the State School Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Note 8 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	Balance <u>7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/03</u>
Furniture and Equipment	\$124,165	\$10,414	\$0	\$134,579

Note 9 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Non-owned auto insurance of \$1,000,000. This includes autos owned by employees of the Knox County Educational Service Center while they are on school business. It covers after their own insurance pays. No claims have been made. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

writing to the School Employees Retirement System, 100 East Broad Street, Suite 100, Columbus, OH 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$101,275, \$49,091, and \$30,007, respectively; 93.81 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$176,579, \$182,006, and \$155,506 respectively; 86.41 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$4,899 made by the Educational Service Center and \$10,875 made by the plan members.

Note 11 - Post-employment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For fiscal year 2002, 4.5 percent was the amount used. For the Educational Service Center this amount equaled \$13,933 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$72,268.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 12 - Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180-day employees and 200 days for 260-day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 45 days. Any employee receiving such payment must meet the requirement provisions set by STRS or SERS.

Life Insurance is provided through Medical Life Insurance Company. The Governing Board pays 100 percent of the premium. Coverage is \$40,000 life and an additional \$40,000 Accidental Death, Dismemberment, and Loss of Sight.

Health insurance is provided through Unicare. Employees pay \$40 and \$60 monthly for single and family coverage, respectively. Yearly deductible for individuals is \$100 and yearly family deductible is \$300.

Note 13 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2003, were as follows:

	<u>Balance</u> <u>7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/03</u>
Compensated Absences	\$32,749	\$19,028	\$0	\$51,777
Intergovernmental Payable	<u>18,005</u>	<u>19,750</u>	<u>18,005</u>	<u>19,750</u>
Total General Long-Term Obligations	<u>\$50,754</u>	<u>\$38,778</u>	<u>\$18,005</u>	<u>\$71,527</u>

Compensated absences will be paid from the fund from which the employee is paid. The intergovernmental payable represents pension obligations paid outside the available period and will be paid from the fund from which the person is paid.

Note 14 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

B. Litigation

The Educational Service Center is not a party to legal proceedings.

Knox County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 15 - Jointly Governed Organizations

The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center did not make any payments for services during fiscal year 2003. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

The Tri-Rivers Educational Computer Association (TRECA) is jointly governed organization among 31 member districts. TRECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports TRECA based upon a per pupil charge dependent upon the software package utilized. TRECA is governed by a board of directors consisting of superintendents of the members' districts. The degree of control exercised by any participating school district is limited to its representation on the board. Audited yearly financial statements are available at TRECA, 2222 Marion-Mt. Gilead Road, Marion, Ohio, 43302.

North Central Ohio Special Education Regional Resource Center (NCO/SERRC)-NCO/SERRC is a special education service center which selects its own board, adopts its own budget and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. NCO/SERRC is governed by a governing board of 47 members made up of representatives from 42 superintendents of the participating districts, one representative from area colleges and university branches, one representative of the County 169 programs, two parents of children with disabilities, and one non-public representative. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Knox County Educational Service Center, 106 East High Street, Mount Vernon, Ohio, 43050.

Note 16 - Insurance Purchasing Pool

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

Note 17 – State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

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**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education: Grants to States	84.027	6B-II-03P	\$819,200	\$570,604
Title VI-B		SE-SI-03P	25,045	4,867
		6B-SI-02P	138,614	335,154
		6B-AA-03P	9,375	2,584
Total Special Education: Grants to States			<u>992,234</u>	<u>913,209</u>
Special Education: Pre-School Grants	84.173	PG-37-02	0	2,308
Title VI-B		PG-S1-03P	25,823	22,730
		PG-S1-02P	0	3,100
Total Special Education: Pre-School Grants			<u>25,823</u>	<u>28,138</u>
Total Special Education Cluster			1,018,057	941,347
Safe and Drug Free Schools Grants	84.184c	DR-S1-03	<u>4,324</u>	<u>4,324</u>
Total U.S. Department of Education			1,022,381	945,671
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities</i>				
Medical Assistance Program (Medicaid)	93.778	N/A	368,881	368,881
Totals			<u>\$1,391,262</u>	<u>\$1,314,552</u>

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

**KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.

NOTE C – SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)

The Schedule includes amounts received and spent by the SERRC. SERRC is a separate entity from the Center and has its own governing body. The Center's responsibility for funding is limited to depositing and disbursing federal monies as directed by the SERRC. SERRC is responsible for compliance with federal requirements, but the federal monies are included within the scope of the Center.



**Auditor of State
Betty Montgomery**

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

Board of Education
Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

We have audited the financial statements of the Educational Service Center, Knox County, Ohio, (the Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated October 31, 2003.

Internal Control Over Financial Reporting

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

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This report is intended for the information and use of the audit committee, management, the Board of Education, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 31, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

Compliance

We have audited the compliance of the Educational Service Center, Knox County, Ohio, (the Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

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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. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Center in a separate letter dated October 31, 2003.

This report is intended for the information and use of the audit committee, management, the Board of Education, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 31, 2003

**EDUCATIONAL SERVICE CENTER
KNOX COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

KNOX COUNTY EDUCATIONAL SERVICE CENTER

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2003**