



**Auditor of State
Betty Montgomery**

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet – All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Fund	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – All Governmental Fund Types	7
Combined Statement of Revenues, Expenses and Changes in Retained Earnings – All Proprietary Fund Types.....	9
Combined Statement of Cash Flows – All Proprietary Fund Types.....	10
Notes to the General Purpose Financial Statements.....	11
Supplemental Schedules:	
Schedule of General Fixed Assets by Source	30
Schedule of General Fixed Assets by Category	31
Schedule of Changes in General Fixed Assets by Function and Activity	32
Schedule of Federal Awards Receipts and Expenditures.....	33
Notes to Schedule of Federal Awards Receipts and Expenditures	34
Independent Accountants' Report on Compliance and on Internal Control Required By <i>Government Auditing Standards</i>	35
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.	37
Schedule of Findings – <i>OMB Circular A-133 §.505</i>	39

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

INDEPENDENT ACCOUNTANTS' REPORT

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To Members of the Board:

We have audited the accompanying general purpose financial statements of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of 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 Muskingum Valley Educational Service Center, Muskingum County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 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".

Betty Montgomery
Auditor of State

January 30, 2003

This page intentionally left blank.

This page intentionally left blank.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	<i>Governmental</i>			<i>Proprietary</i>	
	<i>Fund Types</i>			<i>Fund Types</i>	
	General Fund	Special Revenue Funds	Capital Projects Fund	Enterprise Fund	Internal Service Fund
<u>Assets and Other Debits:</u>					
Assets:					
Cash and Cash Equivalents	\$2,083,768	\$325,679	\$3,297	\$4,454	\$323,432
Investments	671,191	28,809	0	0	0
Receivables:					
Accounts	2,954	400	0	0	100
Intergovernmental	448,101	359,568	0	0	12,150
Interest	10,117	0	0	0	0
Due From Other Funds	15,997	0	0	0	0
Prepaid Items	454,663	0	0	0	0
General Fixed Assets	0	0	0	0	0
Other Debits:					
Amount to be Provided for					
General Long-Term Obligations	0	0	0	0	0
Total Assets and Other Debits	<u>\$3,686,791</u>	<u>\$714,456</u>	<u>\$3,297</u>	<u>\$4,454</u>	<u>\$335,682</u>
<u>Liabilities, Equity and Other Credits:</u>					
Liabilities:					
Accounts Payable	\$83,856	\$33,316	\$0	\$0	\$80
Accrued Wages and Benefits	480,651	54,436	0	0	8,125
Due to Other Funds	0	15,997	0	0	0
Intergovernmental Payables	162,722	21,732	0	0	3,076
Deferred Revenue	0	230,711	0	0	0
Compensated Absences Payable	0	0	0	0	0
Total Liabilities	<u>727,229</u>	<u>356,192</u>	<u>0</u>	<u>0</u>	<u>11,281</u>
Equity and Other Credits:					
Investment in General Fixed Assets	0	0	0	0	0
Retained Earnings:					
Unreserved	0	0	0	4,454	324,401
Fund Balances:					
Reserved for Encumbrances	93,338	88,512	0	0	0
Reserved for Prepaid Items	454,663	0	0	0	0
Unreserved:					
Undesignated	2,411,561	269,752	3,297	0	0
Total Equity and Other Credits	<u>2,959,562</u>	<u>358,264</u>	<u>3,297</u>	<u>4,454</u>	<u>324,401</u>
Total Liabilities, Equity and Other Credits	<u>\$3,686,791</u>	<u>\$714,456</u>	<u>\$3,297</u>	<u>\$4,454</u>	<u>\$335,682</u>

The notes to the general purpose financial statements are an integral part of this statement.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

<i>Fiduciary</i> <u>Fund Type</u>	<i>Account</i> <u>Groups</u>		Totals (Memorandum Only)
Expendable Trust Fund	General Fixed Assets	General Long-Term Obligations	
\$18,303	\$0	\$0	\$2,758,933
0	0	0	700,000
0	0	0	3,454
0	0	0	819,819
0	0	0	10,117
0	0	0	15,997
0	0	0	454,663
0	820,514	0	820,514
0	0	548,133	548,133
<u>\$18,303</u>	<u>\$820,514</u>	<u>\$548,133</u>	<u>\$6,131,630</u>
\$0	\$0	\$0	\$117,252
0	0	0	543,212
0	0	0	15,997
0	0	5,349	192,879
0	0	0	230,711
0	0	542,784	542,784
<u>0</u>	<u>0</u>	<u>548,133</u>	<u>1,642,835</u>
0	820,514	0	820,514
0	0	0	328,855
0	0	0	181,850
0	0	0	454,663
<u>18,303</u>	<u>0</u>	<u>0</u>	<u>2,702,913</u>
<u>18,303</u>	<u>820,514</u>	<u>0</u>	<u>4,488,795</u>
<u>\$18,303</u>	<u>\$820,514</u>	<u>\$548,133</u>	<u>\$6,131,630</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<i>Governmental</i>			<i>Fiduciary</i>	Totals (Memorandum Only)
	<i>Fund Types</i>			<i>Fund Type</i>	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund	
Revenues:					
Local Sources:					
Tuition	\$1,738,057	\$0	\$0	\$0	\$1,738,057
Investment Earnings	82,784	0	0	0	82,784
Extracurricular Activities	3,066	0	0	0	3,066
Intermediate Sources	0	126,950	0	0	126,950
Intergovernmental - State	1,760,610	1,012,892	3,297	0	2,776,799
Intergovernmental - Federal	0	285,728	0	0	285,728
All Other Revenues	2,054,979	0	0	6,705	2,061,684
Total Revenues	5,639,496	1,425,570	3,297	6,705	7,075,068
Expenditures:					
Current:					
Instructional Services	1,631,656	270,310	0	0	1,901,966
Supporting Services:					
Pupils	1,388,496	349,119	0	0	1,737,615
Instructional Staff	1,599,129	399,065	0	0	1,998,194
Board of Education	23,011	0	0	0	23,011
Administration	658,128	308,685	0	0	966,813
Fiscal Services	135,456	5,310	0	0	140,766
Operation and Maintenance of Plant	2,034	4,146	0	0	6,180
Pupil Transportation	9,120	30	0	0	9,150
Central	111,209	4,276	0	0	115,485
Community Services	0	3,000	0	0	3,000
Extracurricular Activities	1,809	0	0	0	1,809
Capital Outlay	25,009	900	0	0	25,909
Total Expenditures	5,585,057	1,344,841	0	0	6,929,898
Excess (Deficiency) of					
Revenues Over (Under) Expenditures	54,439	80,729	3,297	6,705	145,170
Other Financing Sources (Uses):					
Refund of Prior Year Expenditures	55,220	0	0	143	55,363
Refund of Prior Year Receipts	(64,630)	(61,924)	0	(100)	(126,654)
Total Other Financing Sources (Uses)	(9,410)	(61,924)	0	43	(71,291)
Excess (Deficiency) of Revenues					
and Other Financing Sources Over (Under)					
Expenditures and Other Financing Uses	45,029	18,805	3,297	6,748	73,879
Restated Fund Balance Beginning of Year	2,914,533	339,459	0	11,555	3,265,547
Fund Balance End of Year	<u>\$2,959,562</u>	<u>\$358,264</u>	<u>\$3,297</u>	<u>\$18,303</u>	<u>\$3,339,426</u>

The notes to the general purpose financial statements are an integral part of this statement.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FISCAL YEAR ENDED JUNE 30, 2002

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Local Sources:						
Tuition	\$1,926,207	\$1,586,695	(\$339,512)	\$0	\$0	\$0
Investment Earnings	105,000	79,027	(25,973)	0	0	0
Extracurricular Activities	2,500	3,066	566	0	0	0
Intermediate Sources	0	0	0	86,904	126,550	39,646
Intergovernmental - State	1,844,269	1,783,262	(61,007)	941,707	941,707	0
Intergovernmental - Federal	0	0	0	359,304	284,476	(74,828)
All Other Revenues	2,147,325	2,125,299	(22,026)	0	0	0
Total Revenues	6,025,301	5,577,349	(447,952)	1,387,915	1,352,733	(35,182)
Expenditures:						
Current:						
Instruction	1,837,005	1,614,704	222,301	335,995	277,384	58,611
Supporting Services:						
Pupils	1,394,961	1,316,828	78,133	400,735	349,566	51,169
Instructional Staff	1,775,928	1,616,439	159,489	571,672	519,918	51,754
Board of Education	30,246	23,458	6,788	0	0	0
Administration	577,727	540,600	37,127	386,765	317,219	69,546
Fiscal Services	143,464	133,969	9,495	8,210	5,310	2,900
Operation and Maintenance of Plant	3,350	1,963	1,387	10,678	4,146	6,532
Pupil Transportation	15,078	15,078	0	1,000	109	891
Central	155,722	106,196	49,526	5,123	4,276	847
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	2,915	2,915	0	0	0	0
Capital Outlay	291,500	267,946	23,554	900	900	0
Total Expenditures	6,227,896	5,640,096	587,800	1,724,078	1,481,828	242,250
Excess (Deficiency) of Revenues Over (Under) Expenditures	(202,595)	(62,747)	139,848	(336,163)	(129,095)	207,068
Other Financing Sources (Uses):						
Refund of Prior Years' Expenditures	48,500	55,220	6,720	0	0	0
Refund of Prior Years' Receipts	(274,210)	(64,630)	209,580	(61,924)	(61,924)	0
Operating Transfers Out	(20,000)	0	20,000	0	0	0
Pass Through Grant	(17,938)	0	17,938	0	0	0
Total Other Financing Sources (Uses)	(263,648)	(9,410)	254,238	(61,924)	(61,924)	0
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(466,243)	(72,157)	394,086	(398,087)	(191,019)	207,068
Fund Balance at Beginning of Year	2,607,118	2,607,118	0	247,788	247,788	0
Prior Year Encumbrances	61,559	61,559	0	154,059	154,059	0
Fund Balance at End of Year	\$2,202,434	\$2,596,520	\$394,086	\$3,760	\$210,828	\$207,068

(Continued)

The notes to the general purpose financial statements are an integral part of this statement.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (Continued)
ALL GOVERNMENTAL FUND TYPES
FISCAL YEAR ENDED JUNE 30, 2002

	<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Local Sources:						
Tuition	\$0	\$0	\$0	\$1,926,207	\$1,586,695	(\$339,512)
Investment Earnings	0	0	0	105,000	79,027	(25,973)
Extracurricular Activities	0	0	0	2,500	3,066	566
Intermediate Sources	0	0	0	86,904	126,550	39,646
Intergovernmental - State	3,297	3,297	0	2,789,273	2,728,266	(61,007)
Intergovernmental - Federal	0	0	0	359,304	284,476	(74,828)
All Other Revenues	0	0	0	2,147,325	2,125,299	(22,026)
Total Revenues	3,297	3,297	0	7,416,513	6,933,379	(483,134)
Expenditures:						
Current:						
Instruction	0	0	0	2,173,000	1,892,088	280,912
Supporting Services:						
Pupils	0	0	0	1,795,696	1,666,394	129,302
Instructional Staff	0	0	0	2,347,600	2,136,357	211,243
Board of Education	0	0	0	30,246	23,458	6,788
Administration	3,297	0	3,297	967,789	857,819	109,970
Fiscal Services	0	0	0	151,674	139,279	12,395
Operation and Maintenance of Plant	0	0	0	14,028	6,109	7,919
Pupil Transportation	0	0	0	16,078	15,187	891
Central	0	0	0	160,845	110,472	50,373
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	0	0	0	2,915	2,915	0
Capital Outlay	0	0	0	292,400	268,846	23,554
Total Expenditures	3,297	0	3,297	7,955,271	7,121,924	833,347
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	3,297	3,297	(538,758)	(188,545)	350,213
Other Financing Sources (Uses):						
Refund of Prior Years' Expenditures	0	0	0	48,500	55,220	6,720
Refund of Prior Years' Receipts	0	0	0	(336,134)	(126,554)	209,580
Operating Transfers Out	0	0	0	(20,000)	0	20,000
Pass Through Grant	0	0	0	(17,938)	0	17,938
Total Other Financing Sources (Uses)	0	0	0	(325,572)	(71,334)	254,238
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	3,297	3,297	(864,330)	(259,879)	604,451
Fund Balance at Beginning of Year	0	0	0	2,854,906	2,854,906	0
Prior Year Encumbrances	0	0	0	215,618	215,618	0
Fund Balance at End of Year	\$0	\$3,297	\$3,297	\$2,206,194	\$2,810,645	\$604,451

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<i>Enterprise Fund</i>	<i>Internal Service Fund</i>	<i>Totals (Memorandum Only)</i>
<u>Operating Revenues:</u>			
Tuition and Fees	\$0	\$13,455	\$13,455
Charges for Services	0	203,878	203,878
Total Operating Revenues	<u>0</u>	<u>217,333</u>	<u>217,333</u>
<u>Operating Expenses:</u>			
Salaries and Wages	0	77,775	77,775
Fringe Benefits	0	22,692	22,692
Contractual Services	0	132,748	132,748
Materials and Supplies	0	30,808	30,808
Total Operating Expenses	<u>0</u>	<u>264,023</u>	<u>264,023</u>
Operating Income (Loss)	0	(46,690)	(46,690)
<u>Non-Operating Revenues:</u>			
Investment Earnings	103	0	103
Total Non-Operating Revenues	<u>103</u>	<u>0</u>	<u>103</u>
Net Income (Loss)	103	(46,690)	(46,587)
Retained Earnings at Beginning of Year	<u>4,351</u>	<u>371,091</u>	<u>375,442</u>
Retained Earnings at End of Year	<u><u>\$4,454</u></u>	<u><u>\$324,401</u></u>	<u><u>\$328,855</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<i>Enterprise Fund</i>	<i>Internal Service Fund</i>	<i>Totals (Memorandum Only)</i>
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Tuition and Fee Payments	\$0	\$13,455	\$13,455
Cash Received from Charges for Services	0	191,728	191,728
Cash Payments for Goods and Services	0	(166,785)	(166,785)
Cash Payments to Employees for Services and Benefits	0	(90,820)	(90,820)
Net Cash Used by Operating Activities	<u>0</u>	<u>(52,422)</u>	<u>(52,422)</u>
<u>Cash Flows from Investing Activities:</u>			
Receipts of Interest	<u>103</u>	<u>0</u>	<u>103</u>
Net Cash Provided by Investing Activities	<u>103</u>	<u>0</u>	<u>103</u>
Net Increase (Decrease) in Cash and Cash Equivalents	103	(52,422)	(52,319)
Cash and Cash Equivalents at Beginning of Year	4,351	375,854	380,205
Cash and Cash Equivalents at End of Year	<u>\$4,454</u>	<u>\$323,432</u>	<u>\$327,886</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u> Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	\$0	(\$46,690)	(\$46,690)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:			
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	0	(100)	(100)
Increase in Intergovernmental Receivable	0	(12,150)	(12,150)
Decrease in Accounts Payable	0	(1,425)	(1,425)
Increase in Accrued Wages and Benefits	0	8,125	8,125
Decrease in Due to Other Funds	0	(1,096)	(1,096)
Increase in Intergovernmental Payables	0	914	914
Total Adjustments	<u>0</u>	<u>(5,732)</u>	<u>(5,732)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$0</u>	<u>(\$52,422)</u>	<u>(\$52,422)</u>

The notes to the general purpose financial statements are an integral part of this statement.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Muskingum Valley Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under an elected Board of Education of seven members and serves students and educators in Coshocton, Morgan and Muskingum Counties.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the Center (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the Center's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the Center. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the Center's reporting entity. Based on the foregoing, the reporting entity of the Center includes the following services: services to families and children, professional development and teacher support, technical assistance, curriculum services and operational support.

The Center is associated with the Ohio Mid-Eastern Regional Education Service Agency and the Ohio School Boards Association Workers' Compensation Group Rating Program, which are defined as a jointly governed organization and an insurance purchasing pool. These organizations are presented in Notes 13 and 14.

The accounting policies and financial reporting practices of the Center conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types and account groups are used by the Center:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the Center's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the Center's governmental fund types:

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

Special Revenue Funds - These 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 expenditure for specified purposes.

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

Proprietary Funds - The proprietary funds are accounted for on a "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings (net total assets).

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center or to other governments on a cost-reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Center maintains an expendable trust fund which is accounted for and reported similarly to a governmental fund.

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

General Fixed Assets Account Group - This account group is established to account for fixed assets of the Center.

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

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and expendable trust fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the Center is considered to be 60 days after fiscal year end. 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. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenue considered susceptible to accrual at year end includes tuition, grants and entitlements, student fees, and interest on investments.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Center follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

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

The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

1. Appropriations

The annual appropriation resolution is legally enacted by the Center at the fund, function and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources and the total 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 Center. The Center may pass supplemental 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

3. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

4. Budgetary Basis of Accounting

The Center's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

This space intentionally left blank

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D. Budgetary Process (Continued)****4. Budgetary Basis of Accounting (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		
	General	Special	Capital
	Fund	Revenue Funds	Projects Funds
GAAP Basis (as reported)	\$45,029	\$18,805	\$3,297
Increase (Decrease):			
Accrued Revenues at June 30, 2002, received during FY 2003	(477,169)	(129,257)	0
Accrued Revenues at June 30, 2001, received during FY 2002	415,022	56,420	0
Accrued Expenditures at June 30, 2002, paid during FY 2003	727,229	125,481	0
Accrued Expenditures at June 30, 2001, paid during FY 2002	(479,436)	(118,808)	0
FY 2001 Prepaids for FY 2002	310,270	0	0
FY 2002 Prepaids for FY 2003	(454,663)	0	0
Encumbrances Outstanding	(158,439)	(143,660)	0
Budget Basis	<u>(\$72,157)</u>	<u>(\$191,019)</u>	<u>\$3,297</u>

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments with original maturities of less than three months.

The Center pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 4, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Center records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost. See Note 4, "Cash, Cash Equivalents and Investments."

G. Fixed Assets

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. The Center does not capitalize interest on fixed asset acquisition costs due to immateriality. The Center uses a \$500 threshold for fixed asset capitalization. Contributed fixed assets are recorded at fair market value at the date received. The Center does not possess any infrastructure.

General fixed asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain fixed assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

The Center has elected not to record depreciation in the General Fixed Assets Account Group.

H. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Installment Loan	General Fund
Intergovernmental Payable	General Fund
Compensated Absences	General Fund

I. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," sick leave benefits are accrued as a liability using the vesting method. Employees may earn 15 days of sick leave per year up to a maximum of one hundred and eighty (180) days for employees working one hundred eighty-two days (182), one hundred ninety-two (192) days for employees working one hundred ninety-two days (192), and two hundred and two (202) days for employees working two hundred and two (202) days. The maximum sick leave accumulation for all employees shall be two hundred and two (202) days. Upon retirement, employees will receive a maximum of forty (40) days for employees working one hundred and eighty-two (182) days and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

forty-five (45) days for those working one hundred and ninety-two (192) days. Additional compensation, to recognize extended service as a career professional, may be awarded by the Board equal to one (1) days per diem of the current base salary at the time of retirement for every year of service to the organization. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

J. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

K. Interfund Transactions

During the course of normal operations, the Center has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Short-term interfund loans are reflected as interfund loans payable/receivable, while long-term interfund loans (greater than one year in length) are recorded as advances to/from other funds.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. There were no residual equity transfers during the fiscal year.

Transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the Center are similarly treated when involving other funds of the Center.

L. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items and encumbered amounts which have not been accrued at year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Total Columns on Combined Financial Statements

Total columns on the "Combined Financial Statements" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

N. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Educational Management Information Systems

Public School Preschool

Data Communications

School Net

Alternative Education/Schools Challenge

Tech Equity

Parent Mentor

Title I ESEA School Support Team Program

Preschool Grant for Children with Disabilities

Baldrige Deployment

Grants and entitlements amounted to approximately 42 percent of the Center's operating revenue during the 2002 fiscal year.

NOTE 2 - PRIOR PERIOD ADJUSTMENTS

The fund balances of the General Fund and Special Revenue Funds at June 30, 2001 have been restated from amounts previously reported to correct an accounting error in the calculation of interfund balances during fiscal year 2001. Fund balances at June 30, 2001 were restated as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Fund Balance at 6/30/01 (as reported)	\$2,921,783	\$332,209
Restatement	(7,250)	7,250
Fund Balance at 6/30/01 (restated)	<u>\$2,914,533</u>	<u>\$339,459</u>

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficit - The fund deficit at June 30, 2002 of \$96 in the Preschool Handicap Grant Fund (special revenue fund) arose from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. A deficit did not exist under the cash basis of accounting.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the Center into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the Center. Such funds must be maintained either as cash in the Center Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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, and
- The State Treasury Asset Reserve of Ohio (STAROhio).
- Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Center places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, “Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions’ agent in the pool’s name are classified as Category 3.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the Center or by its agent in the Center's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the Center's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Investments:

- Category 1 Insured or registered, or securities held by the Center or its agent in the Center's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Center's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Center's name.

A. Deposits

At year end the carrying amount of the Center's deposits was \$2,319,182 and the bank balance was \$2,521,152. Of the bank balance, \$156,637 was covered by federal depository insurance and \$2,364,515 was uninsured and uncollateralized.

B. Investments

The Center's investments at June 30, 2002 are summarized below:

<u>Non-Categorized Investments</u>	<u>Category 2</u>	<u>Fair Value</u>
Money Market Mutual Fund	N/A	\$1,139,751

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. All interest revenue was credited to the General Fund and the Food Service Fund during fiscal year 2002. General Fund interest revenue amounted to \$82,784, which includes \$16,848 assigned from other Center funds. Food Service Fund interest revenue amounted to \$103.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$2,758,933	\$700,000
Certificates of Deposit (with maturities of more than 3 months)	700,000	(700,000)
Investments:		
Money Market Mutual Fund	<u>(1,139,751)</u>	<u>1,139,751</u>
Per GASB Statement No. 3	<u>\$2,319,182</u>	<u>\$1,139,751</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 consisted of interest, accounts receivable and intergovernmental receivables.

NOTE 6 - INTERFUND BALANCES

Individual interfund balances at June 30, 2002, are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$15,997	\$0
Special Revenue Funds:		
Alternative Education Grant Fund	0	7,212
Tech Equity Grant Fund	<u>0</u>	<u>8,785</u>
Total Special Revenue Funds	<u>0</u>	<u>15,997</u>
Totals	<u>\$15,997</u>	<u>\$15,997</u>

NOTE 7 - FIXED ASSETS

General Fixed Assets-Summary by category of changes in general fixed assets at June 30, 2002:

<u>Category</u>	<u>June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2002</u>
Land and Improvements	\$35,000	\$0	(\$35,000)	\$0
Buildings and Improvements	645	0	0	645
Machinery and Equipment	<u>795,309</u>	<u>109,099</u>	<u>(84,539)</u>	<u>819,869</u>
Totals	<u>\$830,954</u>	<u>\$109,099</u>	<u>(\$119,539)</u>	<u>\$820,514</u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the Center's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the Center, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 9% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 2002, 5.46% was allocated to fund the pension benefit and 8.54% to fund health care. The Center's contributions to the SERS of Ohio for the years ending June 30, 2002, 2001, and 2000 were \$142,340, \$98,957, and \$99,606, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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% of the premium. The portion of the 2002 employer contribution rate (latest information available) that was used to fund health care for the year 2002 was 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2002, the minimum pay has been established as \$12,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$99,638.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 50,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available) were \$161,439,934 and the target level was \$242.2 million. Net assets available for payment of benefits at June 30, 2001 was \$315.7 million.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the Center are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

The Ohio Revised Code provides statutory authority for Center and employee contributions of 14% and 9.3%, respectively. The contribution requirements of plan members and the Center are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. For fiscal year 2002, 9.5% was allocated to fund the pension benefit and 4.5% to fund health care. The Center's contributions to the STRS of Ohio for the years ending June 30, 2002, 2001, and 2000 were \$494,195, \$345,632, and \$422,231, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2002, (latest information available) the board allocated employer contributions are equal to 4.5% of covered payroll to the Health Care Reserve Fund, which amounted to \$158,848 for the Center. The balance of the Health Care Reserve Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, the net health care costs paid by STRS were \$369,354,000. There were 102,132 eligible benefit recipients.

NOTE 9 - COMPENSATED ABSENCES

The Center provides a liability for accumulated unpaid sick leave and vacation time benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. At June 30, 2002, the total accumulated unpaid sick and vacation time recorded in the General Long-Term Obligations Account Group was:

	<u>Sick Leave</u>	<u>Vacation</u>	<u>Total</u>
Liability	\$505,792	\$36,992	\$542,784

NOTE 10 - GENERAL LONG-TERM DEBT AND OTHER GENERAL LONG-TERM OBLIGATIONS

Activity in the General Long-Term Obligations Account Group during fiscal year 2002 was as follows:

	<u>Balance June 30, 2001</u>	<u>Issued (Retired)</u>	<u>Balance June 30, 2002</u>
General Long-Term Debt:			
(Installment Loan)			
Land Contract	\$12,000	(\$12,000)	\$0
Total General Long-Term Debt	<u>12,000</u>	<u>(12,000)</u>	<u>0</u>
Other General Long-Term Obligations:			
Intergovernmental Payable	15,657	(10,308)	5,349
Compensated Absences	496,721	46,063	542,784
Total Other General Long-Term Obligations	<u>512,378</u>	<u>35,755</u>	<u>548,133</u>
Total General Long-Term Debt and Other General Long-Term Obligations	<u>\$524,378</u>	<u>\$23,755</u>	<u>\$548,133</u>

NOTE 11 – OPERATING LEASE

The Center is obligated under an operating lease to Muskingum County for the rental of office space for a period of twenty years. The Center paid to the County half of the lease obligation (\$400,000) in December of 1996. The next scheduled payment is due in January of 2008. The operating lease does not give rise to property rights or lease obligations, and therefore the results of the lease agreement are not reflected in the Center’s account groups. The following is a schedule by years of future minimum rental payments required under the operating lease that have remaining noncancelable lease terms in excess of one year as of June 30, 2002:

<u>Fiscal Year Ending June 30,</u>	<u>Amounts</u>
2008	\$19,640
2009	42,960
2010	42,960
2011	42,960
2012	44,460
2013-2017	<u>207,020</u>
Total Minimum Payments	<u>\$400,000</u>

NOTE 12 – ALL OTHER REVENUES

The revenue category ‘All Other Revenues’ is comprised of several revenue sources. The following is a summary of those sources in the General Fund for the year ended June 30, 2002:

Source	Amounts
Rental of Office Space	\$7,200
Inservices and Other Training	138,273
Program Charges to Local Districts	1,231,840
Curriculum Products and Tools	75,598
Agreements with Local Agencies	62,235
Community Alternative Funding System	554,484
Fiscal Agency Fees	7,110
Miscellaneous Charges	48,559
Cash Basis All Other Revenues	<u>2,125,299</u>
Less: Amounts Related to Prior Year Accruals	(318,102)
Plus: Amounts Related to Current Year Accruals	247,782
Total All Other Revenues	<u>\$2,054,979</u>

NOTE 13 – JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency/(OME-RESA) – OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble and Tuscarawas Counties. OME-RESA is governed by a governing board which is selected by member districts. OME-RESA possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Mid-Eastern Regional Education Service Agency, Attn: Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

NOTE 14 – INSURANCE PURCHASING POOL

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

NOTE 15 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; injuries to employees and natural disasters. During fiscal year 2002 the Center contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Nationwide Insurance Company	School District Liability	\$1,000
Nationwide Insurance Company	Commercial Property	\$500

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

For fiscal year 2002, the Center 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 Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 16 - CONTINGENCIES

A. Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2002.

B. Litigation

The Center is currently not party to any litigation.

NOTE 16 – CONTINGENCIES (Continued)

C. State School Funding

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

NOTE 17 – STATE FUNDING

The Center is funded by the State Department of Education for the cost of part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$40.52. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided by the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

NOTE 18 – SUBSEQUENT EVENT

In July of 2002, Anthem Blue Cross and Blue Shield Insurance Company completed plans to convert from a private mutual insurance company to a publicly traded insurance company (a process know as "demutualization"). As a result of this demutualization, the Center received shares of Anthem's new publicly traded common stock in exchange for its membership interest in the former mutual insurance company. However, because the Ohio Constitution prohibits public bodies from being stockholders in public corporations, the Auditor of State has recommended that each public body receiving stock should sell the stock at a reasonably prompt and beneficial time at the discretion of the public body. The Center sold its Anthem Incorporated Stock in July for \$197,194.

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY SOURCE
JUNE 30, 2002

General Fixed Assets

Buildings and Improvements	\$645
Machinery and Equipment	<u>819,869</u>
Total General Fixed Assets	<u><u>\$820,514</u></u>

Investment in General Fixed Assets from:

Acquisitions Prior to Start-up (August 1995)	\$118,099
General Fund	437,639
Special Revenue Fund	189,801
Capital Projects Funds	7,473
Grants	20,680
Internal Service Funds	16,123
Fiduciary Funds	<u>30,699</u>
Total Investment in General Fixed Assets	<u><u>\$820,514</u></u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF GENERAL FIXED ASSETS
BY CATEGORY
JUNE 30 , 2002

<u>Function and Activity</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Total</u>
Instruction	\$645	\$139,549	\$140,194
Support Services:			
Pupils	0	53,390	53,390
Instructional Staff	0	218,678	218,678
Board of Education	0	1,240	1,240
Administration	0	380,155	380,155
Fiscal Services	0	24,320	24,320
Central Services	0	2,537	2,537
Total General Fixed Assets	<u>\$645</u>	<u>\$819,869</u>	<u>\$820,514</u>

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Function and Activity	June 30, 2001	Additions	Deletions	June 30, 2002
Instruction	\$127,064	\$19,128	(\$5,998)	\$140,194
Support Services:				
Pupils	48,631	9,046	(4,287)	53,390
Instructional Staff	208,904	45,901	(36,127)	218,678
Board of Education	1,240	0	0	1,240
Administration	413,432	31,838	(65,115)	380,155
Fiscal Services	29,146	3,186	(8,012)	24,320
Central Service	2,537	0	0	2,537
Total General Fixed Assets	<u>\$830,954</u>	<u>\$109,099</u>	<u>(\$119,539)</u>	<u>\$820,514</u>

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF EDUCATION <i>Pass-Through State Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	125252-C1ST-2002-P 125252-C1ST-2001-P	\$ 102,934 <u>56,420</u>	\$ 84,220 <u>67,849</u>
Total Title I Grants to Local Educational Agencies			159,354	152,069
Special Education Cluster:				
Special Education: Grants to States	84.027	125252-6BPM-2002-P 125252-6BPM-2001-P	0 <u>25,000</u>	5,534 <u>16,791</u>
Total Special Education: Grants to States			25,000	22,325
Special Education: Preschool Grant	84.173	125252-PGS1-2002-P 125252-PGS1-2001-P	55,837 <u>5,818</u>	50,830 <u>18,581</u>
Total Special Education: Preschool Grant			<u>61,655</u>	<u>69,411</u>
Total Special Education Cluster			86,655	91,736
Goals 2000: State and Local Education Systemic Improvement Grant	84.276	125252-G2S9-2001 125252-G2S9-2001	0 <u>35,000</u>	12,730 <u>31,769</u>
Total Goals 2000: State and Local Education Systemic Improvement Grant			35,000	44,499
Comprehensive School Reform Demonstration Grant	84.332	125252-RFS3-2001	<u>3,467</u>	<u>0</u>
Total United States Department of Education			284,476	288,304
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Pass-Through State Department of Jobs and Family Services/State Department of Mental Retardation and Developmental Disabilities</i>				
Medical Assistance Program (Medicaid)	93.778	N/A	<u>554,484</u>	<u>554,484</u>
Total United States Department of Health and Human Services			<u>554,484</u>	<u>554,484</u>
Total Federal Awards Receipts and Expenditures			<u>838,960</u>	<u>842,788</u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To Members of the Board:

We have audited the accompanying general purpose financial statements of the Muskingum Valley Educational Service Center, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 30, 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 general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

This report is intended for the information and use of management, the Audit Committee, the Board, 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

January 30, 2003



**Auditor of State
Betty Montgomery**

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

Muskingum Valley Educational Service Center
Muskingum County
205 North Seventh Street
Zanesville, Ohio 43701

To Members of the Board:

Compliance

We have audited the compliance of the Muskingum Valley Educational Service Center, Muskingum 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, 2002.

Internal Control over Compliance

The management of the 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.

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 Audit Committee, the Board, 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

January 30, 2003

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

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):	CFDA # 93.778 Medical Assistance Program (Medicaid)
<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

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

No findings to report.

3. FINDINGS FOR FEDERAL AWARDS

No findings to report.



**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

MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER

MUSKINGUM 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
FEBRUARY 27, 2003**