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AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

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

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Central Ohio Educational Service Center, Seneca 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 December 18, 2002 on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the ESC, taken as a whole. The accompanying schedule of federal awards 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 and, in our opinion, 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, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 18, 2002

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in pooled cash and cash equivalents	\$1,256,997	\$140,662
Cash with fiscal agent		
Receivables (net of allowances of uncollectibles):		
Accrued interest	278	
Interfund loan receivable	1,182	
Due from other governments	22,117	14,404
Prepayments	14,419	447
Property, plant and equipment (net of accumulated depreciation where applicable)		
Other debits:		
Amount to be provided for retirement of general long-term obligations		
Total assets and other debits	\$1,294,993	\$155,513

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$29,306		\$188,114			\$1,615,079
	\$233,059				233,059
					278
7,549					1,182
					44,070
					14,866
			\$1,094,422		1,094,422
				\$323,849	323,849
<u>\$36,855</u>	<u>\$233,059</u>	<u>\$188,114</u>	<u>\$1,094,422</u>	<u>\$323,849</u>	<u>\$3,326,805</u>

(Continued)

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002
(Continued)**

	Governmental Fund Types	
	General	Special Revenue
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts payable	\$2,789	\$431
Accrued wages and benefits	476,154	22,239
Compensated absences payable	18,277	1,157
Pension obligation payable	66,661	3,113
Interfund loan payable		1,182
Deferred revenue		14,404
Due to other governments	17,745	1,016
Capital lease obligation payable		
Due to others		
	581,626	43,542
Equity and other credits:		
Investment in general fixed assets		
Retained earnings: unreserved		
Fund balances:		
Reserved for encumbrances	12,173	39,717
Reserved for prepayments	14,419	447
Unreserved-undesignated	686,775	71,807
	713,367	111,971
Total equity and other credits		
Total liabilities, equity and other credits	\$1,294,993	\$155,513

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$6					\$3,226
					498,393
				\$290,931	310,365
				17,914	87,688
					1,182
					14,404
29					18,790
				15,004	15,004
		\$173,211			173,211
35		173,211		323,849	1,122,263
36,820	\$233,059		\$1,094,422		1,094,422
					269,879
					51,890
					14,866
		14,903			773,485
36,820	233,059	14,903	1,094,422		2,204,542
\$36,855	\$233,059	\$188,114	\$1,094,422	\$323,849	\$3,326,805

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Year Ended June 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Revenues:			
From local sources:			
Tuition	\$2,580		
Earnings on investments	41,398	\$89	
Services provided to other districts	4,498,501		
Other local revenues	229,224	33,500	
Intergovernmental - State	2,357,944	632,444	
Intergovernmental - Federal	20,603	330,716	
Total revenue	<u>7,150,250</u>	<u>996,749</u>	
Expenditures:			
Current:			
Instruction:			
Regular	264,330	80,039	
Special	2,504,544	220,670	
Support services:			
Pupil	1,571,157	43,729	
Instructional staff	1,661,016	318,135	\$22,035
Board of Education	21,132	600	
Administration	554,438	293,070	34,201
Fiscal	211,263	17,532	5,784
Business	74,696		
Operations and maintenance	57,243	10,363	
Pupil transportation	11,773	9,722	
Central	230,147	2,013	
Intergovernmental pass through		113,758	
Capital outlay	2,833		
Debt service:			
Principal retirement	11,574		
Interest and fiscal charges	1,603		
Total expenditures	<u>7,177,749</u>	<u>1,109,631</u>	<u>62,020</u>
Excess of revenues over (under) expenditures	<u>(27,499)</u>	<u>(112,882)</u>	<u>(62,020)</u>
Other financing sources (uses):			
Operating transfers in		5,192	
Operating transfers out	(5,590)		
Proceeds from capital lease transaction	2,833		
Total other financing sources (uses)	<u>(2,757)</u>	<u>5,192</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(30,256)</u>	<u>(107,690)</u>	<u>(62,020)</u>
Fund balances, July 1	<u>743,623</u>	<u>219,661</u>	<u>62,020</u>
Fund balances, June 30	<u><u>\$713,367</u></u>	<u><u>\$111,971</u></u>	

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

<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Expendable Trust</u>	
	\$2,580
\$207	41,694
	4,498,501
13,953	276,677
	2,990,388
	351,319
<u>14,160</u>	<u>8,161,159</u>
	344,369
	2,725,214
	1,614,886
	2,001,186
1,000	22,732
2,364	884,073
	234,579
	74,696
	67,606
	21,495
	232,160
	113,758
	2,833
	11,574
	1,603
<u>3,364</u>	<u>8,352,764</u>
<u>10,796</u>	<u>(191,605)</u>
	5,192
	(5,590)
	2,833
	<u>2,435</u>
10,796	(189,170)
4,107	1,029,411
<u>\$14,903</u>	<u>\$840,241</u>

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Year Ended June 30, 2002**

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
From local sources:			
Tuition	\$1,000	\$2,830	\$1,830
Earnings on investments	70,000	41,120	(28,880)
Services provided to other districts	4,564,426	4,491,347	(73,079)
Other local revenues	239,100	229,707	(9,393)
Intergovernmental - State	2,444,717	2,357,944	(86,773)
Intergovernmental - Federal	19,710	20,603	893
Total revenues	<u>7,338,953</u>	<u>7,143,551</u>	<u>(195,402)</u>
Expenditures:			
Current:			
Instruction:			
Regular	326,843	288,155	38,688
Special	2,749,234	2,615,367	133,867
Support services:			
Pupil	1,666,176	1,635,665	30,511
Instructional staff	1,892,629	1,781,981	110,648
Board of Education	24,341	21,139	3,202
Administration	642,906	586,824	56,082
Fiscal	214,905	211,690	3,215
Business	80,558	74,562	5,996
Operations and maintenance	71,426	56,489	14,937
Pupil transportation	20,802	16,808	3,994
Central	296,679	241,820	54,859
Total expenditures	<u>7,986,499</u>	<u>7,530,500</u>	<u>455,999</u>
Excess of revenues over (under) expenditures	<u>(647,546)</u>	<u>(386,949)</u>	<u>260,597</u>
Other financing sources (uses):			
Advances in	1,405		(1,405)
Advances out	(1,182)	(1,182)	
Operating transfers in	550	550	
Operating transfers out	(6,141)	(6,141)	
Intergovernmental pass through	(967,926)		967,926
Refund of prior year's receipts			
Refund of prior year expenditure	812	1,542	730
Total other financing sources (uses)	<u>(972,482)</u>	<u>(5,231)</u>	<u>967,251</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).	<u>(1,620,028)</u>	<u>(392,180)</u>	<u>1,227,848</u>
Fund balances, July 1	1,127,327	1,127,327	
Prior year encumbrances appropriated	506,339	506,339	
Fund balances, June 30	<u><u>\$13,638</u></u>	<u><u>\$1,241,486</u></u>	<u><u>\$1,227,848</u></u>

Special Revenue			Capital Projects		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$89	\$89				
15,145	11,395	(\$3,750)			
38,110	22,105	(16,005)			
741,805	632,443	(109,362)			
345,120	330,717	(14,403)			
<u>1,140,269</u>	<u>996,749</u>	<u>(143,520)</u>			
70,015	52,795	17,220			
288,743	284,412	4,331			
89,509	45,517	43,992			
531,738	440,076	91,662	\$22,336	\$22,336	
600	600				
378,697	327,810	50,887	36,281	36,281	
30,521	18,765	11,756	5,784	5,784	
20,725	10,363	10,362			
32,052	21,422	10,630			
4,025	2,013	2,012			
<u>1,446,625</u>	<u>1,203,773</u>	<u>242,852</u>	<u>64,401</u>	<u>64,401</u>	
<u>(306,356)</u>	<u>(207,024)</u>	<u>99,332</u>	<u>(64,401)</u>	<u>(64,401)</u>	
1,342	1,182	(160)			
5,192	5,192				
15,000	15,000				
<u>21,534</u>	<u>21,374</u>	<u>(160)</u>			
(284,822)	(185,650)	99,172	(64,401)	(64,401)	
133,856	133,856		59,045	59,045	
152,308	152,308		5,356	5,356	
<u>\$1,342</u>	<u>\$100,514</u>	<u>\$99,172</u>			

(Continued)

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Year Ended June 30, 2002**

	Total (Memorandum only)		
	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:			
From local sources:			
Tuition	\$1,000	\$2,830	\$1,830
Earnings on investments	70,089	41,209	(28,880)
Services provided to other districts	4,579,571	4,502,742	(76,829)
Other local revenues	277,210	251,812	(25,398)
Intergovernmental - State	3,186,522	2,990,387	(196,135)
Intergovernmental - Federal	364,830	351,320	(13,510)
Total revenues	<u>8,479,222</u>	<u>8,140,300</u>	<u>(338,922)</u>
Expenditures:			
Current:			
Instruction:			
Regular	396,858	340,950	55,908
Special	3,037,977	2,899,779	138,198
Support services:			
Pupil	1,755,685	1,681,182	74,503
Instructional staff	2,446,703	2,244,393	202,310
Board of Education	24,941	21,739	3,202
Administration	1,057,884	950,915	106,969
Fiscal	251,210	236,239	14,971
Business	80,558	74,562	5,996
Operations and maintenance	92,151	66,852	25,299
Pupil transportation	52,854	38,230	14,624
Central	300,704	243,833	56,871
Total expenditures	<u>9,497,525</u>	<u>8,798,674</u>	<u>698,851</u>
Excess of revenues over (under) expenditures	<u>(1,018,303)</u>	<u>(658,374)</u>	<u>359,929</u>
Other financing sources (uses):			
Advances in	2,747	1,182	(1,565)
Advances out	(1,182)	(1,182)	
Operating transfers in	5,742	5,742	
Operating transfers out	(6,141)	(6,141)	
Intergovernmental pass through	(967,926)		967,926
Refund of prior year's receipts			
Refund of prior year expenditure	15,812	16,542	730
Total other financing sources (uses)	<u>(950,948)</u>	<u>16,143</u>	<u>967,091</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses).	<u>(1,969,251)</u>	<u>(642,231)</u>	<u>1,327,020</u>
Fund balances, July 1	1,320,228	1,320,228	
Prior year encumbrances appropriated	664,003	664,003	
Fund balances, June 30	<u>\$14,980</u>	<u>\$1,342,000</u>	<u>\$1,327,020</u>

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Statement of Revenues, Expenses and
Changes in Retained Earnings
All Proprietary Fund Types
For the Year Ended June 30, 2002**

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating revenues:			
Sales/charges for services	\$14,356		\$14,356
Other operating revenues	5,404		5,404
Total operating revenues	19,760		19,760
Operating expenses:			
Personal services	10,289		10,289
Contract services	12,033		12,033
Materials and supplies	958		958
Total operating expenses	23,280		23,280
Operating loss	(3,520)		(3,520)
Nonoperating revenues:			
Operating grants	5,027		5,027
Interest revenue		\$8,521	8,521
Total nonoperating revenues	5,027	8,521	13,548
Net income before operating transfers	1,507	8,521	10,028
Operating transfers in	398		398
Net income	1,905	8,521	10,426
Retained earnings, July 1	34,915	224,538	259,453
Retained earnings, June 30	\$36,820	\$233,059	\$269,879

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended June 30, 2002**

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Cash flows from operating activities:			
Cash received from sales/service charges	\$4,737		\$4,737
Cash received from other operations	9,619		9,619
Cash payments for personal services	(10,260)		(10,260)
Cash payments for contract services	(12,027)		(12,027)
Cash payments for materials and supplies	(958)		(958)
	<u>(8,889)</u>		<u>(8,889)</u>
Net cash used in operating activities			<u>(8,889)</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	5,027		5,027
Transfers in from other funds	398		398
	<u>5,425</u>		<u>5,425</u>
Net cash provided by noncapital financing activities			<u>5,425</u>
Cash flows from investing activities:			
Interest received		\$8,521	8,521
		<u>8,521</u>	<u>8,521</u>
Net cash provided by investing activities			<u>8,521</u>
Net increase (decrease) in cash and cash equivalents	(3,464)	8,521	5,057
Cash and cash equivalents at beginning of year	32,770	224,538	257,308
Cash and cash equivalents at end of year	<u>\$29,306</u>	<u>\$233,059</u>	<u>\$262,365</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	(\$3,520)		(\$3,520)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Changes in assets and liabilities:			
Increase in due from other governments.	(5,404)		(5,404)
Increase in accounts payable	6		6
Increase in due to other governments	29		29
	<u>(5,369)</u>		<u>(5,369)</u>
Net cash used in operating activities	<u>(\$8,889)</u>		<u>(\$8,889)</u>

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002**

NOTE 1 - DESCRIPTION OF THE ENTITY

The North Central Ohio Educational Service Center (the ESC) 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 ESC is a county board of education as defined by § 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Seneca and Wyandot Counties. The board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agency for the Seneca County Family and Children First Council (The Council) with the rights and responsibilities established by § 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular, vocational, and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisitions. The ESC is staffed by 73 non-certificated employees and 103 certificated employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The financial statements include all funds, account groups, agencies, boards, commissions, and component units for which the ESC is "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC and whether exclusion would cause the ESC's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependence and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Based upon the application of these, the ESC has no component units.

The following organizations are described due to their relationship with the ESC.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The NOECA is a jointly governed organization among 41 area school districts and service centers. The jointly governed organization 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 school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each Service center's authority is limited to its representation on the Board. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the Council)

The Council was established in accordance with Ohio Revised Code § 3301.74. The purpose of the Council shall be to provide insight, generate suggestions, and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Council shall be composed of an optional number of members as determined by the Center's superintendent. The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the Association)

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts - Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to § 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Education Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (WCGRP), an insurance purchasing pool. The GRP was established under § 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial

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management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the ESC and is used to account for all financial resources, except those required to be accounted for in another fund.

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

Capital Project Funds - The capital project funds are used to account for revenues and expenditures related to the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

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

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to the other departments or agencies of the ESC, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and agency funds. The expendable trust fund is accounted for in the same manner as governmental funds. The agency funds are presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual. See Note 3.B. for an analysis of the agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

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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 group of accounts is established to account for all fixed assets of the ESC, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC, except those accounted for in the proprietary funds.

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is thirty days after the June 30 fiscal year-end. Revenues accrued at the end of the year include interest, grants and entitlements, and charges for services.

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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 ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

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

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

D. Budgets

A County ESC is required by State Statute, Ohio Revised Code § 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

Annually, on or before the date designated by the State Board of Education, the ESC shall prepare a budget of operating expenses for the ensuing fiscal year on forms prepared and furnished, and shall certify same to the State Board of Education together with such other information as the Board may require. Such budget shall consist of two parts: Part (A) shall include the cost of salaries, employer's retirement contributions and travel expenses of supervisory teachers approved by the State Board; Part (B) shall include the cost of all other lawful expenditures of the ESC.

Estimated Resources:

The ESC estimates its breakdown of revenue to the State Department of Education by January 20 of each year. This breakdown then serves as the State Department's basis for determining the revenue to be received by the ESC. This breakdown is also used as the basis for the annual appropriation measure.

Appropriations:

A temporary appropriation resolution to control expenditures may be passed on or about July 1 of each year for the period of July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function, and object level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among functions within a fund may be modified during the year by a resolution of the ESC.

Several supplemental appropriation resolutions were legally enacted by the ESC during the year. The budget figures, which appear in the statement of budgetary comparisons, represent the final appropriation amounts including all amendments and modifications.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and 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. On the GAAP basis, encumbrances outstanding at fiscal year-end for governmental fund types are reported as reservations of fund balances for subsequent-year expenditures. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 12 discloses the encumbrances outstanding for the enterprise funds.

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Lapsing of Appropriations:

As 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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

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

During fiscal year 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), a repurchase agreement and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The ESC has invested funds in STAR Ohio during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

Under existing Ohio statute all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund and to the Self-Insurance internal service fund, which is maintained by a fiscal agent in an interest bearing account separate from the ESC's internal investment pool. Interest revenue credited to the general fund during fiscal 2002, amounted to \$41,398, which includes \$10,761 assigned from other ESC funds.

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

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

F. Fixed Assets

General Fixed Assets Account Group

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or

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materially extend asset lives are not capitalized. No depreciation is recognized for assets in the general fixed assets account group.

G. Compensated Absences

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

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

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

Accumulated vacation and severance liabilities of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and severance liability for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

H. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following fiscal year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

I. Marion County Board of Education Consortium (the Consortium)

The Consortium was organized by four local districts in Marion County: Elgin, Pleasant, Ridgedale and River Valley. The intent of the Consortium is to achieve the benefits of a reduced rate for purchases of natural gas by members by virtue of their grouping and representation. The ESC acts as fiscal agent for the Consortium, but has no financial involvement beyond its fiduciary responsibility as fiscal agent. The activity of the Consortium is reflected in the GPFS as an agency fund.

J. Fund Equity

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances

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and prepayments. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

K. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The ESC had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The ESC had no long-term advances receivable or payable at June 30, 2002.

See Note 5 for an analysis of the interfund transactions.

L. Prepayments

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

M. Estimates

The preparation of GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and accompanying notes. Actual results may differ from those estimates.

N. Memorandum Only - Total Columns

Total columns on the GPFS are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2002, included the following individual deficit:

	Fund Deficit
Special Revenue Fund:	
Preschool Grant for the Handicapped	\$9,973

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balance in the Preschool Grant for the Handicapped special revenue fund is caused by the application of GAAP, namely in the reporting of a liability for accrued wages and retirement obligations attributable to the fiscal year. This deficit will be eliminated by intergovernmental revenues and other subsidies not recognized at June 30.

B. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

<u>ASSETS</u>	
Due from other governments	\$2,771
Prepayments	1,863
 <u>LIABILITIES</u>	
Accounts payable	15

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the ESC into three categories:

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

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

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

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited

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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 monies deposited with the institution.

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on hand: At fiscal year-end, the ESC had \$500 in undeposited cash on hand, which is included on the combined balance sheet of the ESC as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with fiscal agent: The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which is included on the balance sheet as "Cash with Fiscal Agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2002, was \$233,059.

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

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Deposits: At fiscal year-end the carrying amount of the ESC's deposits, including nonnegotiable certificates of deposit, was \$(102,354) and the bank balance, including nonnegotiable certificates of deposit, was \$263,242. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments".

1. \$163,242 was covered by federal depository insurance; and
2. \$100,000 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The ESC's investments are categorized below to give an indication of the level of risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical book entry form.

	Category 2	Reported Amount	Fair Value
Repurchase agreements	\$617,266	\$617,266	\$617,266
Investment in STAR Ohio		1,099,667	1,099,667
Total investments	\$617,266	\$1,716,933	\$1,716,933

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

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,848,138	
Investments of the cash management pool:		
Repurchase agreement	(617,266)	\$617,266
Investment in STAR Ohio	(1,099,667)	1,099,667
Cash on hand	(500)	
Cash with fiscal agent	(233,059)	
GASB Statement No. 3	(\$102,354)	\$1,716,933

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	Interfund Receivable	Interfund Payable
General Fund	\$1,182	
Special Revenue Fund		
MRDD Early Intervention Parent Mentor		\$1,182
Total	\$1,182	\$1,182

- B.** The following is a summarized breakdown of the ESC's operating transfers for fiscal year 2002:

	Transfers In	Transfers Out
General Fund		\$5,590
Special Revenue Funds		
Professional Development	\$4,592	
F.B. Walter Scholarship Fund	600	
Enterprise Fund		
Food Service	398	
Totals	\$5,590	\$5,590

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002 consisted of accrued interest, interfund loans, and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of Federal funds. A summary of the principal items of receivables follows:

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	<u>Amounts</u>
<u>General Fund</u>	
Accrued interest	\$ 278
Interfund loan	1,182
Due from other governments	22,117
 <u>Special Revenue Funds</u>	
Due from other governments	14,404
 <u>Enterprise Funds</u>	
Due from other governments	7,549

NOTE 7 - FIXED ASSETS

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

	Balance 7/1/01	Additions	Disposals	Balance 6/30/02
Furniture/equipment	\$1,061,987	\$75,834	(\$43,399)	\$1,094,422

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the ESC entered into a capital lease for three drivers' education vehicles. During fiscal year 2002, the ESC entered into a capital lease agreement for two fax machines. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Financial Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Fund Types and Expendable Trust Funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2002 fiscal year totaled \$11,574. This amount is reflected as debt service principal retirement in the general fund.

The following is an analysis of the equipment under capital lease as of June 30, 2002:

	General Fixed Assets
Equipment (fax machines)	\$2,833
Equipment (vehicles)	44,283
Carrying value	\$47,116

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002:

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Year Ending June 30:	General Long-Term Obligations
2003	\$13,581
2004	696
2005	694
2006	696
2007	404
Total minimum lease payments	16,071
Less: amount representing interest	(1,067)
Present value of future minimum lease payment	\$15,004

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term obligations account group:

	Balance 7/1/01	Increase	Decrease	Balance 6/30/02
Compensated absences	\$256,309	\$121,465	(\$86,843)	\$290,931
Pension obligation payable	20,033	17,914	(20,033)	17,914
Capital lease obligation	23,745	2,833	(11,574)	15,004
Total	\$300,087	\$142,212	(\$118,450)	\$323,849

Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid. The capital lease payments are made from the general fund.

NOTE 10 - COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

In accordance with statute, all employees who present evidence of retirement from active service with the ESC shall be granted severance pay for their accrued but unused sick leave days. The aggregate value of accrued but unused sick leave credit that is paid shall not exceed the value of 30 days, except as provided for below.

The ESC authorizes the payment to a retiring employee of one-fourth of his/her unused sick leave days to a maximum of 50 days.

For purposes of this policy, "retirement" means retirement under the State Teachers' Retirement System.

During fiscal year 2002 the ESC changed their policy in severance pay as follows:

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- A. In order to qualify for severance pay, an employee shall:
1. Have served ten or more years of active service covered by STRS with the State or a political subdivision or a combination thereof;
 2. Have been employed by the ESC for at least three years; and
 3. Express his/her intention to retire on or before his/her last day of service.
- B. In order to qualify for more than 30 days of severance pay, an employee must have been employed by the ESC or by a local school within the County for a minimum of 10 years.
- C. Severance pay is made by the ESC in the following manner:
1. Payment is made no later than 60 days after the application is filed unless a later payment date is requested, in writing, by the employee. All payments are made within one year of the employee's last day of employment. The employee's retirement is verified by the retirement system, and a written request for severance pay must be submitted by the employee.
 2. Such payment is made only once to an employee.
 3. Payments are based upon the employee's daily rate of base pay and based on the days of service at the time of retirement exclusive of any overtime or any supplemental pay.

Payment of severance pay eliminates all obligations of the ESC at the time of retirement from any further payment or restoration of sick leave unused.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of vacation leave accrued for the immediately preceding two years in addition to the pro-rated portion of their earned but unused vacation leave for the current year.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Joint Insurance Trust (the Association). This organization is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky Educational Service Center, and five school districts: Tiffin, Old Fort, Bettsville, Seneca East and New Riegel (see Note 2.A.). The Association was established pursuant to ORC 9.833 in order to provide health care benefits.

Each member school district and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Worker's Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 2.A.). The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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 ensures 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 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The ESC maintains two enterprise funds to account for the operations of food service and other special enterprises. The following table reflects the more significant financial data relating to the enterprise funds of the ESC as of and for the fiscal year-ended June 30, 2002.

	Food Service	Special Enterprise	Total Enterprise Funds
Operating revenues	\$4,737	\$15,023	\$19,760
Operating expenses	10,162	13,118	23,280
Operating income/(loss)	(5,425)	1,905	(3,520)
Operating grants	5,027		5,027
Operating transfers in	398		398
Net income		1,905	1,905
Net working capital		36,820	36,820
Total assets		36,855	36,855
Total liabilities		35	35
Total equity		36,820	36,820
Encumbrances outstanding at June 30, 2002		6	6

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District 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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$159,388, \$151,229, and \$145,894, respectively; 100% has been contributed for fiscal years 2002, 2001 and 2000.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3% of their annual covered salary and the ESC is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established 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. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$402,171, \$445,650, and \$444,720, respectively; 100% has been contributed for fiscal years 2002, 2001, and 2000.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2002, five members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement 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 the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled \$18,097 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in 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 latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. The ESC, the amount to fund health care benefits, including surcharge, equaled \$34,190 during the 2002 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	Governmental Fund Types		
	General	Special Revenue	Capital Projects
	Budget basis	(\$392,180)	(\$185,650)
Net adjustment for revenue accruals	6,699		
Net adjustment for expenditure accruals	337,240	53,994	2,381
Net adjustment for other financing sources/(uses)	2,474	(16,182)	
Encumbrances (budget basis)	15,511	40,148	
GAAP basis	(\$30,256)	(\$107,690)	(\$62,020)

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. 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 plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio Assembly to enact a school-funding scheme that is thorough and efficient..." The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	123257-LLP1-2001	10.555	\$348	\$348
	123257-LLP4-2001		648	648
	123257-LLP4-2002		3,890	3,890
Total U.S. Department of Agriculture			4,886	4,886
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education:</i>				
Special Education - Preschool Grant	123257-PGS1-2001-P	84.173	27,666	36,920
	123257-PGS1-2002-P		80,973	76,838
Total Special Education - Preschool Grant			108,639	113,758
Grants to Local Educational Agencies (ESEA Title I)	123257-C1-SP-01	84.010		24,408
	123257-C1-ST-00			1,464
	123257-C1-ST-01			43,993
	123257-C1ST-2002-P		204,743	173,640
Total Grants to Local Educational Agencies			204,743	243,505
Comprehensive School Reform Demonstration Grant	123257-RFS3-2001	84.332	17,334	16,467
Goals 2000 Grant	123257-G2-A2-00	84.276		21,472
	123257-G2-SP-02			15,000
	123257-GS-S9-00			70,812
	123257-G2-S3-00			219
	123257-G2-S3-01			68,130
Total Goals 2000 Grant				175,633
Total Department of Education			330,716	549,363
Totals			\$335,602	\$554,249

The accompanying notes are an integral part of this schedule.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
June 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the ESC'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 ESC contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

We have audited the financial statements of North Central Ohio Educational Service Center (the ESC) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the ESC in a separate letter dated December 18, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of North Central Ohio Educational Service Center in a separate letter dated December 18, 2002.

This report is intended for the information and use of the audit committee, management, Board of Education, 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, appearing to read "Jim Petro". The signature is stylized with a large loop at the end.

Jim Petro
Auditor of State

December 18, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

North Central Ohio Educational Service Center
Seneca County
244 South Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

Compliance

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

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

In our opinion, the ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

This report is intended for the information and use of the audit committee, management, Board of Education, 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, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

December 18, 2002

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

**Schedule of Findings
OMB Circular A -133 § .505
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 noncompliance 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):	Title I – CFDA # 84.010
<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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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA 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 6, 2003**