



**Auditor of State  
Betty Montgomery**



MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY

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**Auditor of State  
Betty Montgomery**

**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, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Muskingum Valley Educational Service Center, Muskingum County, as of June 30, 2003, 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 16, 2003, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

December 16, 2003

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**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2003**

	<i>Governmental</i>		<i>Proprietary</i>	
	<i>Fund Types</i>		<i>Fund Type</i>	
	General Fund	Special Revenue Funds	Capital Projects Fund	Internal Service Fund
<u>Assets and Other Debits:</u>				
Assets:				
Cash and Cash Equivalents	\$2,418,150	\$173,887	\$147,210	\$380,271
Investments	299,586	0	0	0
Receivables:				
Accounts	1,754	14,551	0	0
Intergovernmental	516,325	23,838	0	0
Interest	3,439	0	0	0
Due From Other Funds	28,866	0	0	0
Prepaid Items	396,072	0	0	0
General Fixed Assets	0	0	0	0
Other Debits:				
Amount to be Provided for				
General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	<u>\$3,664,192</u>	<u>\$212,276</u>	<u>\$147,210</u>	<u>\$380,271</u>
<u>Liabilities, Equity and Other Credits:</u>				
Liabilities:				
Accounts Payable	\$70,030	\$19,645	\$0	\$8,576
Accrued Wages and Benefits	578,978	47,544	0	9,523
Due to Other Funds	0	28,866	0	0
Intergovernmental Payables	130,644	7,174	0	1,944
Deferred Revenue	2,411	17,205	0	0
Compensated Absences Payable	0	0	0	0
Total Liabilities	<u>782,063</u>	<u>120,434</u>	<u>0</u>	<u>20,043</u>
Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	360,228
Fund Balances:				
Reserved for Encumbrances	121,736	36,077	13,200	0
Reserved for Prepaid Items	396,072	0	0	0
Unreserved:				
Undesignated	<u>2,364,321</u>	<u>55,765</u>	<u>134,010</u>	<u>0</u>
Total Equity and Other Credits	<u>2,882,129</u>	<u>91,842</u>	<u>147,210</u>	<u>360,228</u>
Total Liabilities, Equity and Other Credits	<u>\$3,664,192</u>	<u>\$212,276</u>	<u>\$147,210</u>	<u>\$380,271</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, 2003**

<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	
\$77,783	\$0	\$0	\$3,197,301
0	0	0	299,586
0	0	0	16,305
0	0	0	540,163
0	0	0	3,439
0	0	0	28,866
0	0	0	396,072
0	856,809	0	856,809
0	0	553,208	553,208
<u>\$77,783</u>	<u>\$856,809</u>	<u>\$553,208</u>	<u>\$5,891,749</u>
\$0	\$0	\$0	\$98,251
0	0	0	636,045
0	0	0	28,866
0	0	14,251	154,013
0	0	0	19,616
0	0	538,957	538,957
<u>0</u>	<u>0</u>	<u>553,208</u>	<u>1,475,748</u>
0	856,809	0	856,809
0	0	0	360,228
4,500	0	0	175,513
0	0	0	396,072
<u>73,283</u>	<u>0</u>	<u>0</u>	<u>2,627,379</u>
<u>77,783</u>	<u>856,809</u>	<u>0</u>	<u>4,416,001</u>
<u>\$77,783</u>	<u>\$856,809</u>	<u>\$553,208</u>	<u>\$5,891,749</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, 2003**

	<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	
<b>Revenues:</b>					
Local Sources:					
Tuition	\$1,922,803	\$0	\$0	\$0	\$1,922,803
Investment Earnings	52,125	0	0	0	52,125
Extracurricular Activities	2,536	0	0	0	2,536
Intermediate Sources	0	136,820	0	0	136,820
Intergovernmental - State	1,689,528	534,469	147,210	0	2,371,207
Intergovernmental - Federal	0	299,316	0	0	299,316
All Other Revenues	2,545,697	0	0	60,390	2,606,087
Total Revenues	6,212,689	970,605	147,210	60,390	7,390,894
<b>Expenditures:</b>					
Current:					
Instructional Services	1,754,772	374,115	0	0	2,128,887
Supporting Services:					
Pupils	1,349,408	347,914	0	0	1,697,322
Instructional Staff	2,027,598	170,302	0	0	2,197,900
Board of Education	20,915	0	0	0	20,915
Administration	492,928	320,147	3,297	900	817,272
Fiscal Services	162,445	2,900	0	0	165,345
Operation and Maintenance of Plant	1,427	6,216	0	0	7,643
Pupil Transportation	16,249	356	0	0	16,605
Central	106,870	2,972	0	0	109,842
Community Services	0	3,000	0	0	3,000
Extracurricular Activities	2,623	0	0	0	2,623
Capital Outlay	60,375	0	0	0	60,375
Total Expenditures	5,995,610	1,227,922	3,297	900	7,227,729
Excess (Deficiency) of					
Revenues Over (Under) Expenditures	217,079	(257,317)	143,913	59,490	163,165
<b>Other Financing Sources (Uses):</b>					
Refund of Prior Year Expenditures	11,985	0	0	0	11,985
Refund of Prior Year Receipts	(306,497)	(9,105)	0	(10)	(315,612)
Total Other Financing Sources (Uses)	(294,512)	(9,105)	0	(10)	(303,627)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under)					
Expenditures and Other Financing Uses	(77,433)	(266,422)	143,913	59,480	(140,462)
Fund Balance Beginning of Year	2,959,562	358,264	3,297	18,303	3,339,426
Fund Balance End of Year	\$2,882,129	\$91,842	\$147,210	\$77,783	\$3,198,964

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, 2003**

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Local Sources:						
Tuition	\$2,012,753	\$1,957,421	(\$55,332)	\$0	\$0	\$0
Investment Earnings	75,000	61,214	(13,786)	0	0	0
Extracurricular Activities	1,743	2,536	793	0	0	0
Intermediate Sources	0	0	0	166,523	122,669	(43,854)
Intergovernmental - State	1,805,387	1,689,528	(115,859)	605,654	605,654	0
Intergovernmental - Federal	0	0	0	370,236	350,355	(19,881)
All Other Revenues	2,638,300	2,431,186	(207,114)	0	0	0
Total Revenues	<u>6,533,183</u>	<u>6,141,885</u>	<u>(391,298)</u>	<u>1,142,413</u>	<u>1,078,678</u>	<u>(63,735)</u>
<b>Expenditures:</b>						
Current:						
Instruction	1,924,921	1,755,898	169,023	453,518	391,464	62,054
Supporting Services:						
Pupils	1,468,821	1,399,019	69,802	356,440	348,215	8,225
Instructional Staff	2,216,989	2,007,827	209,162	271,810	255,374	16,436
Board of Education	31,747	20,780	10,967	0	0	0
Administration	590,213	529,455	60,758	363,837	315,169	48,668
Fiscal Services	169,545	155,807	13,738	5,800	2,900	2,900
Operation and Maintenance of Plant	3,350	1,482	1,868	6,200	6,200	0
Pupil Transportation	14,044	11,990	2,054	356	356	0
Central	156,483	141,414	15,069	2,972	2,972	0
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	3,000	2,623	377	0	0	0
Capital Outlay	45,000	44,818	182	0	0	0
Total Expenditures	<u>6,624,113</u>	<u>6,071,113</u>	<u>553,000</u>	<u>1,463,933</u>	<u>1,325,650</u>	<u>138,283</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(90,930)	70,772	161,702	(321,520)	(246,972)	74,548
<b>Other Financing Sources (Uses):</b>						
Refund of Prior Years' Expenditures	5,000	11,985	6,985	0	0	0
Refund of Prior Years' Receipts	(364,130)	(306,497)	57,633	(9,105)	(9,105)	0
Advances In	0	25,000	25,000	25,000	25,000	0
Advances Out	(25,000)	(25,000)	0	(25,000)	(25,000)	0
Total Other Financing Sources (Uses)	<u>(384,130)</u>	<u>(294,512)</u>	<u>89,618</u>	<u>(9,105)</u>	<u>(9,105)</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(475,060)	(223,740)	251,320	(330,625)	(256,077)	74,548
Fund Balance at Beginning of Year	2,596,520	2,596,520	0	210,828	210,828	0
Prior Year Encumbrances	158,439	158,439	0	143,660	143,660	0
Fund Balance at End of Year	<u>\$2,279,899</u>	<u>\$2,531,219</u>	<u>\$251,320</u>	<u>\$23,863</u>	<u>\$98,411</u>	<u>\$74,548</u>

(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)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2003**

	<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Local Sources:						
Tuition	\$0	\$0	\$0	\$2,012,753	\$1,957,421	(\$55,332)
Investment Earnings	0	0	0	75,000	61,214	(13,786)
Extracurricular Activities	0	0	0	1,743	2,536	793
Intermediate Sources	0	0	0	166,523	122,669	(43,854)
Intergovernmental - State	147,210	147,210	0	2,558,251	2,442,392	(115,859)
Intergovernmental - Federal	0	0	0	370,236	350,355	(19,881)
All Other Revenues	0	0	0	2,638,300	2,431,186	(207,114)
Total Revenues	147,210	147,210	0	7,822,806	7,367,773	(455,033)
<b>Expenditures:</b>						
Current:						
Instruction	147,210	13,200	134,010	2,525,649	2,160,562	365,087
Supporting Services:						
Pupils	0	0	0	1,825,261	1,747,234	78,027
Instructional Staff	0	0	0	2,488,799	2,263,201	225,598
Board of Education	0	0	0	31,747	20,780	10,967
Administration	3,297	3,297	0	957,347	847,921	109,426
Fiscal Services	0	0	0	175,345	158,707	16,638
Operation and Maintenance of Plant	0	0	0	9,550	7,682	1,868
Pupil Transportation	0	0	0	14,400	12,346	2,054
Central	0	0	0	159,455	144,386	15,069
Community Services	0	0	0	3,000	3,000	0
Extracurricular Activities	0	0	0	3,000	2,623	377
Capital Outlay	0	0	0	45,000	44,818	182
Total Expenditures	150,507	16,497	134,010	8,238,553	7,413,260	825,293
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,297)	130,713	134,010	(415,747)	(45,487)	370,260
<b>Other Financing Sources (Uses):</b>						
Refund of Prior Years' Expenditures	0	0	0	5,000	11,985	6,985
Refund of Prior Years' Receipts	0	0	0	(373,235)	(315,602)	57,633
Advances In	0	0	0	25,000	50,000	25,000
Advances Out	0	0	0	(50,000)	(50,000)	0
Total Other Financing Sources (Uses)	0	0	0	(393,235)	(303,617)	89,618
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,297)	130,713	134,010	(808,982)	(349,104)	459,878
Fund Balance at Beginning of Year	3,297	3,297	0	2,810,645	2,810,645	0
Prior Year Encumbrances	0	0	0	302,099	302,099	0
Fund Balance at End of Year	\$0	\$134,010	\$134,010	\$2,303,762	\$2,763,640	\$459,878

**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, 2003**

	<i>Enterprise Fund</i>	<i>Internal Service Fund</i>	<i>Totals (Memorandum Only)</i>
<u>Operating Revenues:</u>			
Tuition and Fees	\$0	\$5,120	\$5,120
Charges for Services	0	301,470	301,470
Total Operating Revenues	<u>0</u>	<u>306,590</u>	<u>306,590</u>
<u>Operating Expenses:</u>			
Salaries and Wages	0	69,567	69,567
Fringe Benefits	0	18,007	18,007
Contractual Services	0	135,866	135,866
Materials and Supplies	4,454	47,323	51,777
Total Operating Expenses	<u>4,454</u>	<u>270,763</u>	<u>275,217</u>
Operating Income (Loss)	(4,454)	35,827	31,373
Net Income (Loss)	(4,454)	35,827	31,373
Retained Earnings at Beginning of Year	4,454	324,401	328,855
Retained Earnings at End of Year	<u>\$0</u>	<u>\$360,228</u>	<u>\$360,228</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, 2003**

	<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	\$5,120	\$5,120
Cash Received from Charges for Services	0	313,620	313,620
Cash Payments for Goods and Services	(4,454)	(174,625)	(179,079)
Cash Payments to Employees for Services and Benefits	0	(87,276)	(87,276)
Net Cash Provided (Used) by Operating Activities	<u>(4,454)</u>	<u>56,839</u>	<u>52,385</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,454)	56,839	52,385
Cash and Cash Equivalents at Beginning of Year	4,454	323,432	327,886
Cash and Cash Equivalents at End of Year	<u>\$0</u>	<u>\$380,271</u>	<u>\$380,271</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>    Provided (Used) by Operating Activities:</u>			
Operating Income (Loss)	(\$4,454)	\$35,827	\$31,373
Adjustments to Reconcile Operating Income (Loss) to			
Net Cash Provided (Used) by Operating Activities:			
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	0	100	100
Decrease in Intergovernmental Receivable	0	12,150	12,150
Increase in Accounts Payable	0	8,496	8,496
Increase in Accrued Wages and Benefits	0	1,398	1,398
Decrease in Intergovernmental Payables	0	(1,132)	(1,132)
Total Adjustments	<u>0</u>	<u>21,012</u>	<u>21,012</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$4,454)</u>	<u>\$56,839</u>	<u>\$52,385</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, 2003**

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**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 12 and 13.

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 an "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 Board. The Board 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).

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## 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 Fund	Special Revenue Funds	Capital Projects Funds
GAAP Basis (as reported)	(\$77,433)	(\$266,422)	\$143,913
Increase (Decrease):			
Accrued Revenues at June 30, 2003, received during FY 2004	(547,973)	(21,184)	0
Accrued Revenues at June 30, 2002, received during FY 2003	477,169	129,257	0
Accrued Expenditures at June 30, 2003, paid during FY 2004	779,652	103,229	0
Accrued Expenditures at June 30, 2002, paid during FY 2003	(727,229)	(125,481)	0
FY 2002 Prepays for FY 2003	454,663	0	0
FY 2003 Prepays for FY 2004	(396,072)	0	0
Encumbrances Outstanding	(186,517)	(75,476)	(13,200)
Budget Basis	<u>(\$223,740)</u>	<u>(\$256,077)</u>	<u>\$130,713</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 3, "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 3, "Cash, Cash Equivalents and Investments."

The Center had invested funds in the State Treasury Asset Reserve of Ohio during 2003. 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. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

**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>
Intergovernmental Payable	General Fund
Compensated Absences	General Fund

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 35 percent of the Center's operating revenue during the 2003 fiscal year.

**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

*Fund Deficits* - The fund deficits at June 30, 2003 of \$1,851 in the Public School Preschool Fund, \$6,962 in the Alternative Education Grant Fund, \$6,688 in the Tech Equity Grant Fund and \$10,463 in the Preschool Handicap Grant Fund (special revenue funds) arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis of accounting. Deficits did not exist under the cash basis of accounting.

**NOTE 3 - 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.

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;



**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

- 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 deposits held by each institution. Obligations that may be pledged as 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.

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.

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**A. Deposits**

At year end the carrying amount of the Center's deposits was \$2,571,919 and the bank balance was \$2,767,611. Of the bank balance, \$208,458 was covered by federal depository insurance and \$2,559,153 was uninsured and uncollateralized.

**B. Investments**

The Center's investments at June 30, 2003 are summarized below:

	<u>Category 2</u>	<u>Fair Value</u>
<u>Categorized Investments</u>		
U.S. Treasury Bills	\$24,926	\$24,926
U.S. Treasury Notes	599,113	599,113
Total Categorized Investments	<u>624,039</u>	<u>624,039</u>
<u>Non-Categorized Investments</u>		
STAROhio		300,929
Total Non-Categorized Investments	<u>0</u>	<u>300,929</u>
Total Investments	<u>\$624,039</u>	<u>\$924,968</u>

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 during fiscal year 2003. General Fund interest revenue amounted to \$52,125, which includes \$11,614 assigned from other Center funds.

**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	\$3,197,301	\$299,586
Investments:		
U.S. Treasury Bills	(24,926)	24,926
U.S. Treasury Notes	(299,527)	299,527
STAROhio	<u>(300,929)</u>	<u>300,929</u>
Per GASB Statement No. 3	<u>\$2,571,919</u>	<u>\$924,968</u>

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2003 consisted of interest, accounts receivable and intergovernmental receivables.

**NOTE 5 - INTERFUND BALANCES**

Individual interfund balances at June 30, 2003, are as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$28,866	\$0
Special Revenue Funds:		
Public School Preschool Fund	0	1,616
School Net Professional Development Fund	0	3,250
Tech Equity Grant Fund	0	18,716
Parent Mentor Grant Fund	0	2,784
Title I Fund	<u>0</u>	<u>2,500</u>
Total Special Revenue Funds	<u>0</u>	<u>28,866</u>
Totals	<u><u>\$28,866</u></u>	<u><u>\$28,866</u></u>

**NOTE 6 - FIXED ASSETS**

General Fixed Assets-Summary by category of changes in general fixed assets at June 30, 2003:

<u>Category</u>	<u>June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>
Buildings and Improvements	\$645	\$0	\$0	\$645
Machinery and Equipment	819,869	98,554	(62,259)	856,164
Totals	<u><u>\$820,514</u></u>	<u><u>\$98,554</u></u>	<u><u>(\$62,259)</u></u>	<u><u>\$856,809</u></u>

**NOTE 7 - 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 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. At June 30, 2003, 8.17% was allocated to fund the pension benefit and 5.83% to fund health care. The Center's contributions to the SERS of Ohio for the fiscal years ending June 30, 2003, 2002, and 2001 were \$154,063, \$142,340, and \$98,957, 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 2003 employer contribution rate that was used to fund health care for the year 2003 was 5.83%. 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 2003, the minimum pay has been established as \$14,500. The amount contributed to fund health care benefits, including the surcharge amounted to \$64,156.

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, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. Net assets available for payment of benefits at June 30, 2002 was \$335.2 million.

**NOTE 7 - 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 Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)**

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

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. At June 30, 2003, 13% was allocated to fund the pension benefit and 1% to fund health care. The Center's contributions for pension obligations to the DB Plan for the fiscal years ending June 30, 2003, 2002, and 2001 were \$429,616, \$412,996, and \$370,768, respectively, which were equal to the required contributions for each year. Contributions to the DC Plan for fiscal year 2003 was \$5,989 made by the Center and \$5,305 made by the plan members. The Center did not have any Combined Plan contributions for fiscal year 2003 because none of the Center's employees participated in the Combined Plan.

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B 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, 2003, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$30,687 for the Center. The balance of the Health Care Reserve Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, the net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

**NOTE 8 - 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, 2003, 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	\$497,678	\$41,279	\$538,957

**NOTE 9 - GENERAL LONG-TERM OBLIGATIONS**

Activity in the General Long-Term Obligations Account Group during fiscal year 2003 was as follows:

	Balance June 30, 2002	Issued (Retired)	Balance June 30, 2003
<b>General Long-Term Obligations:</b>			
Intergovernmental Payable	\$5,349	\$8,902	\$14,251
Compensated Absences	542,784	(3,827)	538,957
Total General Long-Term Obligations	<u>\$548,133</u>	<u>\$5,075</u>	<u>\$553,208</u>

**NOTE 10 – 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, 2003:

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

**NOTE 11 – 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, 2003:

Source	Amounts
Rental of Office Space	\$17,224
Inservices and Other Training	59,815
Program Charges to Local Districts	1,151,461
Curriculum Products and Tools	364,961
Agreements with Local Agencies	112,628
Community Alternative Funding System	553,300
Fiscal Agency Fees	6,100
Stock Sale	137,771
Miscellaneous Charges	27,926
Cash Basis All Other Revenues	<u>2,431,186</u>
Less: Amounts Related to Prior Year Accruals	(247,782)
Plus: Amounts Related to Current Year Accruals	362,293
Total All Other Revenues	<u>\$2,545,697</u>

**NOTE 12 – 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 13 – 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 14 - 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 2003 the Center contracted with one different insurance provider for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Hartford Insurance Company	Automobile	\$0
Hartford Insurance Company	Business Personal Property	\$1,000
Hartford Insurance Company	Excess Liability	Various

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.



**NOTE 14 - RISK MANAGEMENT (Continued)**

For fiscal year 2003, 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 15 - 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, 2003.

**B. Litigation**

The Center is currently not party to any litigation.

**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 16 – 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.

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO**  
**SCHEDULE OF GENERAL FIXED ASSETS**  
**BY SOURCE**  
**JUNE 30, 2003**

General Fixed Assets

Buildings and Improvements	\$645
Machinery and Equipment	<u>856,164</u>
Total General Fixed Assets	<u><u>\$856,809</u></u>

Investment in General Fixed Assets from:

Acquisitions Prior to Start-up (August 1995)	\$86,587
General Fund	452,165
Special Revenue Fund	196,157
Capital Projects Funds	7,473
Grants	23,438
Internal Service Funds	60,290
Fiduciary Funds	<u>30,699</u>
Total Investment in General Fixed Assets	<u><u>\$856,809</u></u>

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER, OHIO**  
**SCHEDULE OF GENERAL FIXED ASSETS**  
**BY CATEGORY**  
**JUNE 30 , 2003**

<u>Function and Activity</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Total</u>
Instruction	\$645	\$140,393	\$141,038
Support Services:			
Pupils	0	56,524	56,524
Instructional Staff	0	273,644	273,644
Board of Education	0	1,240	1,240
Administration	0	359,014	359,014
Fiscal Services	0	25,349	25,349
Total General Fixed Assets	<u>\$645</u>	<u>\$856,164</u>	<u>\$856,809</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, 2003**

Function and Activity	June 30, 2002	Additions	Deletions	June 30, 2003
Instruction	\$140,194	\$6,667	(\$5,823)	\$141,038
Support Services:				
Pupils	53,390	7,219	(4,085)	56,524
Instructional Staff	218,678	70,975	(16,009)	273,644
Board of Education	1,240	0	0	1,240
Administration	380,155	12,664	(33,805)	359,014
Fiscal Services	24,320	1,029	0	25,349
Central Service	2,537	0	(2,537)	0
Total General Fixed Assets	<u>\$820,514</u>	<u>\$98,554</u>	<u>(\$62,259)</u>	<u>\$856,809</u>

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**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

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

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Disbursements
<b>U. S. DEPARTMENT OF EDUCATION</b>				
<i>Pass-Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	84.010	125252-C1ST-2003-P	\$116,227	\$72,590
		125252-C1ST-2003-P	32,886	26,826
		125252-C1ST-2002-P	68,623	87,337
Total Title I Grants to Local Educational Agencies			<u>217,736</u>	<u>186,753</u>
Special Education Cluster:				
Special Education - Grants to States	84.027	125252-6BPM-2003-P	25,000	19,218
		125252-6BPM-2002-P	0	8,210
		125252-6BSA-2003-P	28,699	11,191
Total Special Education - Grants to States			<u>53,699</u>	<u>38,619</u>
Special Education Preschool Grant	84.173	125252-PGS1-2003-P	62,090	62,090
		125252-PGS1-2002-P	6,205	11,212
Total Special Education Preschool Grant			<u>68,295</u>	<u>73,302</u>
Total Special Education Cluster			121,994	111,921
Safe and Drug Free Schools and Communities_National Programs	84.184	125252-T4S1-2003	10,625	9,646
Goals 2000 - State and Local Education Systemic Improvement Grant	84.276	125252-G2S9-2001	0	3,231
Comprehensive School Reform Demonstration Grant	84.332	125252-RFS3-2001	0	3,467
Total U. S. Department of Education			350,355	315,018
<b>U. S. DEPARTMENT OF HEALTH AND AND HUMAN SERVICES</b>				
<i>Pass-Through Ohio Department of Jobs and Family Services/Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	N/A	<u>553,300</u>	<u>553,300</u>
Total U. S. Department of Health and Human Services			<u>553,300</u>	<u>553,300</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$903,655</u></b>	<b><u>\$868,318</u></b>

*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, 2003**

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





**Auditor of State  
Betty Montgomery**

**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, 2003, and have issued our report thereon dated December 16, 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

December 16, 2003



## Auditor of State Betty Montgomery

### 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, 2003. The Center's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

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

#### Internal Control Over Compliance

The management of 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.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

December 16, 2003

**MUSKINGUM VALLEY EDUCATIONAL SERVICE CENTER  
MUSKINGUM COUNTY**

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

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

<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, 2003  
(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**

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**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  
JANUARY 22, 2004**