



**Auditor of State  
Betty Montgomery**



**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Sandusky County Educational Service Center  
500 West State Street  
Fremont, Ohio 43420-2579

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Sandusky County Educational Service Center (the Service 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 Service 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 Sandusky County Educational Service Center as of June 30, 2003, and the results of its operations 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 November 6, 2003 on our consideration of the Service 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

November 6, 2003

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**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Combined Balance Sheet  
All Fund Types and Account Groups  
As of June 30, 2003**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>ASSETS AND OTHER DEBITS:</b>			
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 1,497,845	\$ 48,763	\$ 1,302
Receivables:			
Accounts	833,132	1,656	-
Intergovernmental	-	56,127	4,690
Accrued interest	651	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-
<b>Other debits:</b>			
Amount to be provided from general government resources	-	-	-
<b>Total assets and other debits</b>	<b><u>\$ 2,331,628</u></b>	<b><u>\$ 106,546</u></b>	<b><u>\$ 5,992</u></b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 848	\$ 64	\$ -
Accrued wages	481,377	11,341	-
Compensated absences payable	6,635	-	-
Intergovernmental payable	87,882	2,327	-
Deferred revenue	-	5,693	-
<b>Total liabilities</b>	<b><u>576,742</u></b>	<b><u>19,425</u></b>	<b><u>-</u></b>
<b>Fund equity and other credits:</b>			
Investment in general fixed assets	-	-	-
Fund balance:			
Reserved for encumbrances	333	97	-
Unreserved, undesignated	1,754,553	87,024	5,992
<b>Total fund equity and other credits</b>	<b><u>1,754,886</u></b>	<b><u>87,121</u></b>	<b><u>5,992</u></b>
<b>Total liabilities, fund equity and other credits</b>	<b><u>\$ 2,331,628</u></b>	<b><u>\$ 106,546</u></b>	<b><u>\$ 5,992</u></b>

*See accompanying notes to the general-purpose financial statements.*



<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$ -	\$ -	\$ 1,547,910
-	-	834,788
-	-	60,817
-	-	651
441,673	-	441,673
-	122,268	122,268
<u>\$ 441,673</u>	<u>\$ 122,268</u>	<u>\$ 3,008,107</u>
\$ -	\$ -	\$ 912
-	-	492,718
-	104,960	111,595
-	17,308	107,517
-	-	5,693
-	122,268	718,435
441,673	-	441,673
-	-	430
-	-	1,847,569
441,673	-	2,289,672
<u>\$ 441,673</u>	<u>\$ 122,268</u>	<u>\$ 3,008,107</u>

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**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2003**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Revenues:</b>				
Intergovernmental	\$ 2,169,902	\$ 250,356	\$ 28,050	\$ 2,448,308
Interest	94,245	-	-	94,245
Tuition and fees	2,557,909	-	-	2,557,909
Miscellaneous	13,604	1,656	-	15,260
	<b>4,835,660</b>	<b>252,012</b>	<b>28,050</b>	<b>5,115,722</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	142,992	57,883	-	200,875
Special	2,617,987	96,286	-	2,714,273
Vocational	-	42	-	42
Adult/continuing	462	-	-	462
Support services:				
Pupils	958,273	274	-	958,547
Instructional staff	663,490	73,252	22,058	758,800
Board of education	43,954	-	-	43,954
Administration	108,742	-	-	108,742
Fiscal	66,877	-	-	66,877
Pupil transportation	79,136	-	-	79,136
Central	-	2,889	9,892	12,781
	<b>4,681,913</b>	<b>230,626</b>	<b>31,950</b>	<b>4,944,489</b>
Excess of revenues over (under) expenditures	153,747	21,386	(3,900)	171,233
Fund balances at beginning of year	1,601,139	65,735	9,892	1,676,766
<b>Fund balances at end of year</b>	<b>\$ 1,754,886</b>	<b>\$ 87,121</b>	<b>\$ 5,992</b>	<b>\$ 1,847,999</b>

*See accompanying notes to the general-purpose financial statements.*

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

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

	<b>Governmental Fund Types</b>		
	<b>General Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$ 1,607,220	\$ 1,612,661	\$ 5,441
Interest	14,400	93,594	79,194
Tuition and fees	1,590,940	1,690,408	99,468
Miscellaneous	1,525,631	1,134,270	(391,361)
Total revenues	<u>4,738,191</u>	<u>4,530,933</u>	<u>(207,258)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	163,451	144,259	19,192
Special	2,872,105	2,595,988	276,117
Vocational	-	-	-
Adult/continuing	924	462	462
Support services:			
Pupils	1,044,604	945,667	98,937
Instructional staff	827,717	647,130	180,587
Board of education	59,545	44,378	15,167
Administration	257,753	202,512	55,241
Fiscal	137,716	122,818	14,898
Operation and maintenance of plant	6,500	-	6,500
Pupil transportation	94,821	79,288	15,533
Central	-	-	-
Total expenditures	<u>5,465,136</u>	<u>4,782,502</u>	<u>682,634</u>
Excess of revenues over (under) expenditures	<u>(726,945)</u>	<u>(251,569)</u>	<u>475,376</u>
<b>Other financing sources:</b>			
Refund of prior year expenditures	4,200	14,593	10,393
Total other financing sources	<u>4,200</u>	<u>14,593</u>	<u>10,393</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(722,745)</u>	<u>(236,976)</u>	<u>485,769</u>
Fund balances at beginning of year	1,693,525	1,693,525	-
Prior year encumbrances appropriated	18,879	18,879	-
<b>Fund balances at end of year</b>	<u><b>\$ 989,659</b></u>	<u><b>\$ 1,475,428</b></u>	<u><b>\$ 485,769</b></u>

*See accompanying notes to the general-purpose financial statements.*

**Governmental Fund Types**

<b>Special Revenue Funds</b>			<b>Capital Projects Funds</b>		
<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
\$ 270,600	\$ 205,590	\$ (65,010)	\$ 23,360	\$ 23,360	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>270,600</u>	<u>205,590</u>	<u>(65,010)</u>	<u>23,360</u>	<u>23,360</u>	<u>-</u>
129,117	75,885	53,232	-	-	-
119,528	96,876	22,652	-	-	-
50	50	-	-	-	-
-	-	-	-	-	-
672	274	398	-	-	-
92,359	73,438	18,921	23,360	22,058	1,302
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>17,717</u>	<u>2,889</u>	<u>14,828</u>	<u>9,892</u>	<u>9,892</u>	<u>-</u>
<u>359,443</u>	<u>249,412</u>	<u>110,031</u>	<u>33,252</u>	<u>31,950</u>	<u>1,302</u>
<u>(88,843)</u>	<u>(43,822)</u>	<u>45,021</u>	<u>(9,892)</u>	<u>(8,590)</u>	<u>1,302</u>
-	-	-	-	-	-
-	-	-	-	-	-
(88,843)	(43,822)	45,021	(9,892)	(8,590)	1,302
61,730	61,730	-	-	-	-
<u>30,168</u>	<u>30,168</u>	<u>-</u>	<u>9,892</u>	<u>9,892</u>	<u>-</u>
<b><u>\$ 3,055</u></b>	<b><u>\$ 48,076</u></b>	<b><u>\$ 45,021</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,302</u></b>	<b><u>\$ 1,302</u></b>

(Continued)

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual Comparison (Non-GAAP Budgetary Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2003  
(Continued)**

	<b>Totals (Memorandum Only)</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$ 1,901,180	\$ 1,841,611	\$ (59,569)
Interest	14,400	93,594	79,194
Tuition and fees	1,590,940	1,690,408	99,468
Miscellaneous	1,525,631	1,134,270	(391,361)
Total revenues	<u>5,032,151</u>	<u>4,759,883</u>	<u>(272,268)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	292,568	220,144	72,424
Special	2,991,633	2,692,864	298,769
Vocational	50	50	-
Adult/continuing	924	462	462
Support services:			
Pupils	1,045,276	945,941	99,335
Instructional staff	943,436	742,626	200,810
Board of education	59,545	44,378	15,167
Administration	257,753	202,512	55,241
Fiscal	137,716	122,818	14,898
Operation and maintenance of plant	6,500	-	6,500
Pupil transportation	94,821	79,288	15,533
Central	27,609	12,781	14,828
Total expenditures	<u>5,857,831</u>	<u>5,063,864</u>	<u>793,967</u>
Excess of revenues over (under) expenditures	<u>(825,680)</u>	<u>(303,981)</u>	<u>521,699</u>
<b>Other financing sources:</b>			
Refund of prior year expenditures	4,200	14,593	10,393
Total other financing sources	<u>4,200</u>	<u>14,593</u>	<u>10,393</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(821,480)</u>	<u>(289,388)</u>	<u>532,092</u>
Fund balances at beginning of year	1,755,255	1,755,255	-
Prior year encumbrances appropriated	58,939	58,939	-
<b>Fund balances at end of year</b>	<b><u>\$ 992,714</u></b>	<b><u>\$ 1,524,806</u></b>	<b><u>\$ 532,092</u></b>

*See accompanying notes to the general-purpose financial statements.*

## **SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003**

#### **NOTE 1 - DESCRIPTION OF THE SERVICE CENTER**

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The Sandusky County Educational Service Center (the Service 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 Service Center is a County Educational Service Center as defined by § 3313.01 of the Ohio Revised Code. The Service Center operates under an elected Board of Governors (5 members). Board members must be residents of the local school systems located in Sandusky County. The Service Center provides educational services to the local school systems in Sandusky County as well as city school districts that have a contractual relationship with the Service Center. The Service Center employed fifty-eight certificated employees and forty-seven non-certificated employees at year-end.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **A. Reporting Entity**

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Service Center. For the Service Center, this includes only the general operations of the Service Center.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organization's governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organizations' resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt or the levying of taxes. The Service Center does not have any component units.

The Service Center is associated with the Northern Ohio Educational Computer Association and the Northwestern Ohio Educational Research Council, which are defined as jointly governed organizations. A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding this organization is presented in Note 11.

##### **B. Basis of Presentation - Fund Accounting**

The Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Service Center functions or activities.

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the Service Center are grouped into the generic fund types under the broad governmental fund category.

#### GOVERNMENTAL FUND TYPES

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

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

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

Capital Projects Funds: Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

#### ACCOUNT GROUPS

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

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

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

#### **C. Measurement Focus and Basis of Accounting**

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



## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed by the governmental funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the accounting period in which the resources become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Service Center is sixty days after year-end.

Non-exchange transactions, in which the Service Center 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 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 Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available at fiscal year-end: investment earnings, tuition and fees, grants and entitlements, and customer services.

The Service Center reports deferred revenue on its combined balance sheet. Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Grants and entitlements received before the eligibility requirements are met have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

#### **D. Budgets and Budgetary Accounting**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major document prepared is the appropriation resolution which is prepared on the budgetary basis of accounting. The appropriations resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All Service Center funds are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Governing Board of the Service Center.

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

#### APPROPRIATIONS

The Governing Board of the Service Center must submit an annual appropriation of operating expenses to the State Board of Education for approval in accordance with ORC § 3317.11. Part of the Service Center's operating expenses are apportioned among the member districts under the basis of the total number of pupils in each district and deducted from funds allocated to local districts under the State's School Foundation Program. Prior to the passage of the Annual Appropriation Resolution, the Governing Board may pass a temporary resolution to meet the ordinary expenses of the Service Center. Appropriations by fund must be within the estimated resources and the total expenditures and encumbrances may not exceed the appropriation at any level of control. The Governing Board must approve any revisions that alter the total of any fund appropriation, alter total function appropriations within a fund, or alter object appropriations within functions.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed estimated resources. During the year, amendments were legally enacted; however, none of these changes were significant.

The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. Under Ohio law, advances are not required to be budgeted.

#### ENCUMBRANCES

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

#### 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 succeeding fiscal year and need not be reappropriated.

#### **E. Cash and Investments**

To improve cash management, all cash received by the Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through Service Center records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the balance sheet. During the fiscal year, investments were limited to overnight repurchase agreements. Except for nonparticipating investment contracts (such as repurchase agreements) and participating investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Under existing Ohio statutes, all investment earnings accrue to the General Fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

For purposes of the 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

#### **F. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the General Fixed Assets Account Group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Service Center capitalizes assets with an original cost of at least five hundred dollars and an estimated useful life of five to twenty years. The Service Center does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated. The Service Center's policy is not to capitalize interest costs associated with construction.

#### **G. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and all other grant requirements have been met.

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

##### **Entitlements**

###### General Fund

State Foundation Program

##### **Non-Reimbursable Grants**

###### Special Revenue Funds

Parent Mentoring

Alternative Schools

Management Information System

Nutrition Education

Data Communications

EHA Preschool

Teacher Development

Title VI-B, Special Education

SchoolNet Professional Development

###### Capital Projects Funds

SchoolNet

Telecommunity

## **SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)**

Grants and entitlements amounted to approximately 39 percent of the Service Center's revenue during the year.

#### **H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on Service Center employees who are considered eligible or potentially eligible to retire.

Accumulated vacation and sick leave of employees paid from governmental funds has been recorded in the appropriate governmental funds as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is recorded in the general long-term obligations account group.

#### **I. Accrued Liabilities and Long-term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually-required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources.

#### **J. Interfund Transactions**

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

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

#### **K. Fund Balance Reserves**

The Service Center records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

#### **L. Estimates**

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

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the General-Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003  
(Continued)**

**M. Memorandum Only - Total Columns on General Purpose Financial Statements**

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

**NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

Adjustments necessary to convert the results of operations at the end of the year on the Budget Basis to the GAAP basis are as follows:

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses		
	General	Special Revenue	Capital Projects
GAAP Basis	\$ 153,747	\$ 21,386	\$ (3,900)
Revenue Accruals	(290,134)	(46,422)	(4,690)
Expenditure Accruals	(100,256)	(18,689)	-
Encumbrances (Budget Basis)			
Outstanding at year end	(333)	(97)	-
Budget Basis	<u>\$ (236,976)</u>	<u>\$ (43,822)</u>	<u>\$ (8,590)</u>

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Service Center Treasury, in commercial accounts payable or

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Governors 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 moneys. Interim moneys are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim moneys may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States treasury bills, notes, bonds, or any other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time and for a period not to exceed one hundred eighty days.

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Interest earned on cash and investments in all funds is legally required to be placed in the General fund. Interest revenue credited to the General fund amounted to \$94,245, which includes \$4,110 assigned from other Service Center funds.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the General-Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003  
(Continued)**

Deposits: The carrying value of the Service Center's deposits was \$1,131,827 and the bank balances of the deposits totaled \$1,155,943. Of the bank balance, \$300,000 was covered by federal depository insurance. \$855,943 was collateralized with securities held by the pledging institution's trust department or agent but not in the Service Center's name.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the Service Center's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the Service Center or its agent in the Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Service Center's name. Category 3 includes investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Service Center's name.

The only Service Center investment at year-end was a repurchase agreement. It is a Category 3 investment, with a carrying value and a fair value of \$416,083.

**NOTE 5 - RECEIVABLES**

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Receivables at year-end consisted of accounts (tuition and excess costs), intergovernmental grants and entitlements, and accrued interest. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. The special revenue and capital projects funds' intergovernmental receivable at year-end consisted of \$56,127 and \$4,690, respectively.

**NOTE 6 - FIXED ASSETS**

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

	Balance July 1	Additions	Deletions	Balance June 30
Furniture, fixtures, and equipment	\$ 380,602	61,071	-	\$ 441,673

**NOTE 7 - RISK MANAGEMENT**

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The Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years. The Service Center provides life insurance and accidental death and dismemberment insurance to its employees.

The Service Center has contracted with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) to provide medical/surgical and dental insurance for its employees and their covered dependents. The OME-RESA is a shared risk pool comprised of multiple entities. The Service Center pays monthly contributions that are placed in a fund from which eligible claims are paid for employees and their covered dependents. Claims are paid for all participants regardless of claims flow. In the event of termination, all participating entities' claims would be paid without regard to their individual account balances. The OME-RESA Board of Directors has authority to return monies to an exiting entity subsequent to the settlement of all claims and expenses.

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

The Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

#### **NOTE 8 - DEFINED BENEFIT PENSION PLANS**

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##### **A. School Employees Retirement System**

The Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute nine percent of their annual covered salary and the Service Center is required to contribute an actuarially determined rate of fourteen percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$161,356, \$159,494, and \$152,142, respectively; eighty-one percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$29,447, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

##### **B. State Teachers Retirement System**

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Service Center is required to contribute an actuarially determined rate of fourteen percent of annual covered payroll. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of ten percent for members and fourteen percent for employers. The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$319,659, \$332,688, and \$323,547, respectively; eighty-one percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$61,903, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

#### **NOTE 9 – POST-EMPLOYMENT BENEFITS**

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Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to



**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the General-Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003  
(Continued)**

contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to 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 fourteen percent of covered payroll. The retirement board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the Service Center this amount equaled \$106,806 during the 2003 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.011 billion at June 30, 2002, (latest information available). For the year ended June 30, 2002, the net health care costs paid by the STRS were \$354,697,000 and eligible benefit recipients totaled 105,300.

For the School Employees Retirement System (SERS), 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 seventy-five 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 fourteen 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 fourteen percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the Service Center, the amount of employer contributions used to fund health care equaled \$96,418, which includes a surcharge of \$17,308 during the 2003 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the SERS's net assets available for payment of health care benefits were \$335.2 million. The number of participants receiving health care benefits was approximately 50,000.

**NOTE 10 - LONG-TERM OBLIGATIONS**

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

	Balance July 1	Additions	Deletions	Balance June 30
<b>General Long-Term Obligations</b>				
Compensated absences	\$ 85,451	\$ 19,509	\$ -	\$ 104,960
Employer pension obligations	16,569	17,308	16,569	17,308
<b>Total General Long-Term Obligations</b>	<b>\$ 102,020</b>	<b>\$ 36,817</b>	<b>\$ 16,569</b>	<b>\$ 122,268</b>

Compensated absences: Sick leave benefits will be paid from the fund from which the person is paid. Additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the Service Center to determine these amounts separately.

Employer pension obligations: Employer pension due to the School Employees Retirement System will be paid from the fund from which the person is paid.

## SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the General-Purpose Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

#### NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

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##### A. Northern Ohio Educational Computer Association

Northern Ohio Educational Computer Association (NOECA) is the computer service organization or Data Acquisition Site (DAS) used by the Service Center. NOECA is an association of public school districts and county educational service centers in a geographic area determined by the Ohio Department of Education. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the members. All service centers and school districts in the consortium are required to pay fees, charges, and assessments as charged.

A board made up of superintendents from all of the participating districts and service centers governs NOECA. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The Service Center does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NOECA are made from the General fund. During fiscal year 2003, the Service Center contributed \$7,512 to NOECA. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

##### B. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. The ESC paid \$150 for these services to NOERC in fiscal year 2003. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

#### NOTE 12 - CONTINGENCIES

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##### A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure 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, management believes that such disallowed claims, if any, will not have a material adverse effect on the overall financial position of the Service Center at year-end.

##### B. 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 school funding plan is unconstitutional.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the General-Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003  
(Continued)**

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 Service Center is 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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## **Auditor of State Betty Montgomery**

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

Sandusky County Educational Service Center  
500 West State Street  
Fremont, Ohio 43420-2579

To the Board of Education:

We have audited the financial statements of Sandusky County Educational Service Center (the Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 6, 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 Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated November 6, 2003.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 the Sandusky County Educational Service Center in a separate letter dated November 6, 2003.

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

November 6, 2003



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**SANDUSKY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 2, 2003**