



**Auditor of State  
Betty Montgomery**



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Madison-Champaign Educational Service Center  
Champaign County  
1512 South State Route 68, Suite J101  
Urbana, Ohio 43078

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Madison-Champaign Educational Service Center, Champaign County (the "Center"), as of and for the fiscal-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 Center as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the fiscal-year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2004 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 federal awards expenditures schedule 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

January 27, 2004

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003**

	<b>Governmental Fund Types</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>Assets and Other Debits:</b>		
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,443,198	\$101,188
Receivables (net of allowances of uncollectibles):		
Accounts	1,676	
Due From Other Governments	140,697	140
Prepayments	5,883	1,049
Property, Plant and equipment (net of accumulated depreciation where applicable)		
<b>Other Debits:</b>		
Amount to be Provided From General government Resources		
<b>Total Assets and Other Debits</b>	<b>1,591,454</b>	<b>102,377</b>
<b>Liabilities, Equity and Other Credits</b>		
<b>Liabilities:</b>		
Accounts Payable	11,132	1,166
Accrued Wages and Benefits	656,711	18,503
Compensated Absences Payable	14,591	1,169
Due To Other governments	33,471	2,356
Pension Obligation	84,774	2,479
Deferred Revenue	7,387	
<b>Total Liabilities</b>	<b>808,066</b>	<b>25,673</b>
<b>Equity and Other Credits:</b>		
Investment in General Fixed Assets		
Retained Earnings: Unreserved		
Fund Balances:		
Reserved for encumbrances	25,364	36,946
Reserved for Prepayments	5,883	1,049
Unreserved-Undesignated	752,141	38,709
<b>Total Equity and Other Credits</b>	<b>783,388</b>	<b>76,704</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$1,591,454</b>	<b>\$102,377</b>

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



Proprietary Fund Type	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Enterprise			
	\$40,604		\$1,584,990
			1,676
	569		141,406
			6,932
	390,562		390,562
		260,057	260,057
	41,173	390,562	2,385,623
	1,889		14,187
			675,214
		235,136	250,896
	2,409		38,236
		24,921	112,174
			7,387
	4,298	260,057	1,098,094
	36,875	390,562	390,562
			36,875
			62,310
			6,932
			790,850
	36,875	390,562	1,287,529
	\$41,173	\$390,562	\$2,385,623

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Revenues:</b>				
From Local Sources:				
Tuition	\$65,214			\$65,214
Earnings on Investments	19,714			19,714
Contract Services	5,196,081	15,370		5,211,451
Other Local Revenues	33,725	59,889		93,614
Other Revenue	7,934	10,556		18,490
Intergovernmental - State	1,242,736	594,068		1,836,804
Intergovernmental - Federal	122,125	172,374		294,499
<b>Total Revenues</b>	<u>6,687,529</u>	<u>852,257</u>		<u>7,539,786</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	154,307	145,082		299,389
Special	2,564,446	14,641		2,579,087
Other		26,548		26,548
Support Services:				
Pupil	1,491,369	82,685		1,574,054
Instructional Staff	1,743,068	481,659		2,224,727
Board of Education	30,266			30,266
Administration	433,073	4,876	3,037	440,986
Fiscal	216,392	35,009		251,401
Business	8,822			8,822
Operations and Maintenance	3,878			3,878
Pupil Transportation	4,060	161,609		165,669
Intergovernmental Pass-Through		88,062		88,062
<b>Total Expenditures</b>	<u>6,649,681</u>	<u>1,040,171</u>	<u>3,037</u>	<u>7,692,889</u>
Excess of Revenues Over (Under) Expenditures	37,848	(187,914)	(3,037)	(153,103)
Other Financing Uses:				
Operating Transfers Out	(26,000)			(26,000)
Excess of Revenues Over Expenditures and Other Financing Uses	11,848	(187,914)	(3,037)	(179,103)
Fund Balances, July 1	<u>771,540</u>	<u>264,618</u>	<u>3,037</u>	<u>1,039,195</u>
<b>Fund Balances, June 30</b>	<u>\$783,388</u>	<u>\$76,704</u>	<u>\$0</u>	<u>\$860,092</u>

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

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<b>General</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Revenues:</b>			
From Local Sources:			
Tuition	\$58,720	\$63,726	\$5,006
Earnings on Investments	19,731	19,714	(17)
Contract services	5,237,499	5,376,662	139,163
Other Local Revenues	29,700	33,466	3,766
Other Revenue	2,800	7,934	5,134
Intergovernmental - State	1,242,675	1,242,736	61
Intergovernmental - Federal	147,000	148,065	1,065
<b>Total Revenues</b>	<b>6,738,125</b>	<b>6,892,303</b>	<b>154,178</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	203,565	173,938	29,627
Special	2,614,135	2,490,391	123,744
Other			
Support services:			
Pupil	1,560,754	1,479,907	80,847
Instructional Staff	1,774,596	1,716,239	58,357
Board of Education	34,499	27,710	6,789
Administration	528,205	444,639	83,566
Fiscal	264,486	222,599	41,887
Business	9,554	8,947	607
Operations and Maintenance	13,563	4,335	9,228
Pupil Transportation	5,665	4,740	925
Central	5,123		5,123
<b>Total Expenditures</b>	<b>7,014,145</b>	<b>6,573,445</b>	<b>440,700</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(276,020)	318,858	594,878
<b>Other Financing Sources (Uses):</b>			
Operating Transfers (out)		(26,000)	(26,000)
Refund of Prior Year Receipts		(47,934)	(47,934)
Refund of Prior Year Expenditures		259	259
<b>Total Other Financing Sources (Uses)</b>		<b>(73,675)</b>	<b>(73,675)</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(276,020)	245,183	521,203
Fund Balances, July 1	1,133,945	1,133,945	
Prior Year Encumbrances appropriated	31,526	31,526	
<b>Fund Balances, June 30</b>	<b>\$889,451</b>	<b>\$1,410,654</b>	<b>\$521,203</b>

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

Special Revenue			Capital Projects		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$14,000	\$15,370	\$1,370			
54,549	59,749	5,200			
17,000	10,556	(6,444)			
593,850	594,943	1,093			
210,127	199,974	(10,153)			
<u>889,526</u>	<u>880,592</u>	<u>(8,934)</u>			
176,451	163,334	13,117			
27,017	27,017				
32,737	26,601	6,136			
98,985	92,473	6,512			
627,300	600,047	27,253			
4,873	4,873		3,297	3,297	
36,619	35,284	1,335			
171,471	163,276	8,195			
<u>1,175,453</u>	<u>1,112,905</u>	<u>62,548</u>	<u>3,297</u>	<u>3,297</u>	
<u>(285,927)</u>	<u>(232,313)</u>	<u>53,614</u>	<u>(3,297)</u>	<u>(3,297)</u>	
(11,446)	(11,446)				
<u>(11,446)</u>	<u>(11,446)</u>				
(297,373)	(243,759)	53,614	(3,297)	(3,297)	
174,136	174,136		3,037	3,037	
132,699	132,699		260	260	
<u>\$9,462</u>	<u>\$63,076</u>	<u>\$53,614</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE  
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Operating Revenues:</b>			
Tuition and fees	\$82,995		\$82,995
Sales/charges for services	4,276		4,276
Investment earnings		60	60
<b>Total Operating Revenues</b>	<u>87,271</u>	<u>60</u>	<u>87,331</u>
<b>Operating Expenses:</b>			
Personal services	46,477		46,477
Contract services	5,587		5,587
Materials and supplies	60,339		60,339
Other	154	1,646	1,800
<b>Total Operating Expenses</b>	<u>112,557</u>	<u>1,646</u>	<u>114,203</u>
Operating Loss	(25,286)	(1,586)	(26,872)
<b>Nonoperating Revenues:</b>			
Grants and Subsidies	17,341		17,341
<b>Net Loss Before Operating Transfers</b>	<u>(7,945)</u>	<u>(1,586)</u>	<u>(9,531)</u>
Operating Transfers In	26,000		26,000
<b>Net Income (Loss)</b>	<u>18,055</u>	<u>(1,586)</u>	<u>16,469</u>
Retained Earnings/Fund Balance, July 1	18,820	1,586	20,406
<b>Retained Earnings/Fund Balance, June 30</b>	<u><u>\$36,875</u></u>	<u><u>\$0</u></u>	<u><u>\$36,875</u></u>

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

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE AND NONEXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
<b>Cash Flows From Operating Activities:</b>			
Cash Received From Tuition and Fees	\$82,995		\$82,995
Cash Received From Sales/Service Charges	4,276		4,276
Cash Payments for Personal Services	(53,763)		(53,763)
Cash Payments for Contract Services	(5,038)		(5,038)
Cash Payments for Materials and Supplies	(58,580)		(58,580)
Cash Payments for Other Expenses	(4)	(1,646)	(1,650)
	<u>(30,114)</u>	<u>(1,646)</u>	<u>(31,760)</u>
<b>Net Cash Used in Operating Activities</b>			
<b>Cash Flows From Non-Capital Financing Activities:</b>			
Cash Received From Grants and Subsidies	16,772		16,772
Cash Received From Transfers In	26,000		26,000
	<u>42,772</u>		<u>42,772</u>
<b>Net Cash Provided by Non-Capital Financing Activities</b>			
<b>Cash Flows From Investing Activities:</b>			
Interest Received		60	60
		<u>60</u>	<u>60</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>12,658</b>	<b>(1,586)</b>	<b>11,072</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>27,946</b>	<b>1,586</b>	<b>29,532</b>
	<u>27,946</u>	<u>1,586</u>	<u>29,532</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b>40,604</b>		<b>40,604</b>
	<u>40,604</u>		<u>40,604</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>			
Operating Loss	(25,286)	(1,586)	(26,872)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:			
Interest Reported as Operating Income		(60)	(60)
Changes in Assets and Liabilities:			
Increase in Accounts Payable	501		501
Decrease in Compensated Absences Payable	(3,862)		(3,862)
Decrease in Pension Obligation Payable	(3,277)		(3,277)
Increase in Due to Other Governments	1,810		1,810
	<u>1,810</u>		<u>1,810</u>
<b>Net Cash Used in Operating Activities</b>	<b>(\$30,114)</b>	<b>(\$1,646)</b>	<b>(\$31,760)</b>
	<u>(\$30,114)</u>	<u>(\$1,646)</u>	<u>(\$31,760)</u>

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

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**1. DESCRIPTION OF THE ENTITY**

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative, and other services to the Graham, Jefferson, Jonathan Alder, Madison Plains, West Liberty-Salem, and Triad Local School Districts; Mechanicsburg Exempted Village School District; and London and Urbana City School Districts. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 86 non-certified employees and 109 certified employees.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements (GPFS) of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The Center's significant accounting policies are described below.

**A. The Reporting Entity**

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

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

**Jointly Governed Organizations**

**Western Ohio Computer Organization** - The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 11 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information is available from Sonny Ivey, Jr., Administrator, 129 East Court Street, Sidney, Ohio 45265.

**West Central Ohio Special Education Regional Resource Center** - The West Central Ohio Special Educational Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326.

**Central Ohio Special Education Regional Resource Center** - The Central Ohio Special Educational Regional Resource Center (COSERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The COSERRC is governed by a sixty member board consisting of the superintendent from the sixty participating members. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Melissa Shultz, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43206.

**Public Entity 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 (WCGRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**B. Fund Accounting**

The Center uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Funds**

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

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

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

**Capital Projects Fund** - The capital projects fund is used to account for financial resources to be used for the acquisition of equipment.

**2. Proprietary Funds**

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

**Enterprise Funds** - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**3. Fiduciary Funds**

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Center's fiduciary fund is a nonexpendable trust fund. The nonexpendable trust fund is accounted for in essentially the same manner as proprietary funds.

**4. Account Groups**

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

**General Fixed Assets Account Group** - This group of accounts is established to account for all fixed assets of the Center, other than those accounted for in the proprietary funds.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**C. Measurement Focus/Basis of Accounting**

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

The enterprise funds and nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund are included on the balance sheet. Operating statements present increases (revenues) and decreases (expenses) in net total assets.

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

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

Nonexchange transactions, in which the 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 met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

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

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

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**D. Budgets**

A Center is required by state statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

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

**1. Estimated Resources**

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

**2. Appropriations**

A temporary appropriation resolution to control expenditures may be passed on or about July 1 of each year for the period of July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the fund, function, object level, which is the legal level of control. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among objects within functions and functions within funds may be modified during the year by a resolution of the Center. Several supplemental appropriation resolutions were legally enacted by the Center during the year. The budget figures, which appear in the statement of budgetary comparisons, represent the final appropriation amounts including all amendments and modifications.

**3. Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end for governmental fund types are reported as reservations of fund balances for subsequent-year expenditures. Note 15 provides a reconciliation of the budgetary and GAAP basis of accounting. Encumbrances outstanding at fiscal year-end for the enterprise funds can be found in Note 12.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. Lapsing of Appropriations**

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

**E. Cash and Investments**

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

During fiscal year 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair market value.

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

The Center allocates interest according to state statutes. Interest revenue credited to the general fund during fiscal 2003, amounted to \$19,714, which includes \$3,072 assigned from other Center funds.

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

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

**F. Fixed Assets and Depreciation**

**General Fixed Assets Account Group**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. The Center follows the capitalization policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. No depreciation is recognized for assets in the general fixed assets account group.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Flow-Through Grants**

The Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in special revenue funds. For fiscal year 2003, these activities included the Preschool Handicapped special revenue fund.

**H. Compensated Absences**

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

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

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

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

**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, compensated absences and contractually required pension contributions 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. In general, payments made more than 60 days after year-end are considered not to have been made with current available financial resources.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

**K. Interfund Transactions**

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The Center had no short-term interfund loans receivable or payable at June 30, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The Center had no long-term advances receivable or payable at June 30, 2003. An analysis of interfund transactions is presented in Note 5.

**L. Prepayments**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**M. Estimates**

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

**N. Memorandum Only - Total Columns**

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



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**3. ACCOUNTABILITY**

**Deficit Fund Balances**

Fund balances at June 30, 2003, included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Fund</u>	
Management Information Systems	\$24
Alternative School	34
School Bus Driver Training	298

These funds complied with Ohio state law which does not allow a cash deficit at year-end. The deficit fund balances are primarily caused by the reporting of a liability for accrued wages and benefits attributable to the fiscal year. These deficits will be eliminated by anticipated intergovernmental revenues and other subsidies not recognized and recorded at June 30.

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes require the classification of monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

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

**Cash on hand:** At fiscal year-end, the Center had \$100 in undeposited cash on hand, which is included on the combined balance sheet of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

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

**Deposits:** At year-end, the carrying amount of the Center's deposits, including non-negotiable certificates of deposit, was \$1,132,295 and the bank balance was \$1,248,065. Of the bank balance:

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**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

1. \$224,104 was covered by federal depository insurance; and
2. \$1,023,960 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

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

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

The Center had investments with a carrying value and market value of \$452,595 in STAR Ohio at June 30, 2003. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9 entitled, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

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

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$1,584,990	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(452,595)	452,595
Cash on hand	(100)	-
GASB Statement No. 3	<u>\$1,132,295</u>	<u>\$452,595</u>

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**5. INTERFUND TRANSACTIONS**

The following is a summarized breakdown of the Center's operating transfers for fiscal year 2003:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		\$26,000
<u>Enterprise Fund</u>		
Food Service	\$26,000	-

**6. RECEIVABLES**

Receivables at June 30, 2003 consisted of accounts (billings for user charged services), and intergovernmental grants (to the extent eligibility requirements have been met by year-end). Intergovernmental grants receivable have been presented as "Due From Other Governments" on the combined balance sheet. Intergovernmental receivables are considered collectible in full due to the stable condition of state programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Accounts	\$ 1,676
Due from other governments	140,697
<u>Special Revenue Funds</u>	
Due from other governments	140
<u>Enterprise Funds</u>	
Due from other governments	569

**7. STATE FUNDING**

The Center is funded by the State Board of Education from state funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the state's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from state funds to the Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

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**8. FIXED ASSETS**

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

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2003</u>
Furniture and equipment	\$335,954	\$31,017	\$(4,214)	\$362,757
Vehicles	<u>27,805</u>	<u>-</u>	<u>-</u>	<u>27,805</u>
Total	<u>\$363,759</u>	<u>\$ 31,017</u>	<u>\$(4,214)</u>	<u>\$390,562</u>

**9. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group:

	<u>Balance July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2003</u>
Compensated absences	\$246,085	\$ -	\$(10,949)	\$235,136
Pension obligation payable	<u>15,893</u>	<u>24,921</u>	<u>(15,893)</u>	<u>24,921</u>
Total	<u>\$261,978</u>	<u>\$24,921</u>	<u>(\$26,842)</u>	<u>\$260,057</u>

Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid.

**10. COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation time does not carry beyond the contract year in which it is earned. Accumulated unused vacation time is paid to twelve month employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, employees with five to ten years of service are paid for one-fifth of accrued, but unused sick leave credit to a maximum of forty days, and employees with over ten years of service are paid for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days.

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**11. RISK MANAGEMENT**

**A. Comprehensive**

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the Center contracted for the following insurance coverages:

Coverages provided by Nationwide Insurance are as follows:

Building and contents - replacement cost (\$100 deductible)	\$1,000,000
Automobile liability (\$200 deductible)	1,000,000
General liability	
Per occurrence	1,000,000
Aggregate	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

**B. Health Care Benefits**

The Center provides health insurance and prescription drug benefits through CoreSource. Vision insurance is provided through Vision Service Plan, dental insurance through Anthem Blue Cross Blue Shield, and life insurance through CoreSource, Anthem Blue Cross Blue Shield, and Community National Assurance. Insurance premiums vary with each employee depending on marital and family status.

**C. Worker's Compensation**

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

The intent of the GRP is to achieve the benefit of a reduced premium for the 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 ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**12. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Center maintains three enterprise funds to account for the operations of Food Service and Latchkey Program. The following table reflects the more significant financial data relating to the enterprise funds of the Center as of and for the fiscal year-ended June 30, 2003.

	<u>Food Service</u>	<u>Latchkey</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 4,276	\$82,995	\$ 87,271
Operating expenses	44,616	67,941	112,557
Operating income/(loss)	(40,340)	15,054	(25,286)
Operating grants	17,341	-	17,341
Net income/(loss)	(22,999)	15,054	(7,945)
Operating transfers in	26,000	-	26,000
Net working capital	5,602	31,273	36,875
Total assets	5,602	35,571	41,173
Total liabilities	-	4,298	4,298
Total equity	5,602	31,273	36,875
Encumbrances at 6/30/03	-	5,113	5,113

**13. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the Center is required to contribute 14% for 2002; 8.17% was the portion to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$101,611, \$67,202, and \$45,969, respectively; 100% has been contributed for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$40,749 and is recorded as a liability within the respective funds and the general long-term obligations account group.

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**13. DEFINED BENEFIT PENSION PLANS**

**B. State Teachers Retirement System**

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

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.

Plan members are required to contribute 9.3% of their annual covered salary and the Center is required to contribute 14%; 13% was the portion used to fund pension obligations for fiscal year 2003. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$513,244, \$365,595, and \$342,289, respectively; 82% has been contributed for fiscal year 2003, and 100% has been contributed for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$71,426 and is recorded as a liability within the respective funds.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2003, two of the members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.



**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**14. POSTEMPLOYMENT BENEFITS**

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the Center, this amount equaled \$39,480 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in 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 latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,947 million and the target level was \$274.42 million. At June 30, 2002 (the latest information available), SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$91,145 during the 2003 fiscal year.

**15. BUDGETARY BASIS OF ACCOUNTING**

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) 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:

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**15. BUDGETARY BASIS OF ACCOUNTING (Continued)**

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

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

**Excess (Deficiency) of Revenues and Other Financing Sources  
Over/(Under) Expenditures and Other  
Financing Uses**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$ 245,183	\$ (243,759)	(3,297)
Net adjustment for revenue accruals	(204,774)	(28,335)	-
Net adjustment for expenditure accruals	(108,780)	34,622	260
Net adjustment for other financing sources/(uses)	47,675	11,446	-
Encumbrances (budget basis)	<u>32,544</u>	<u>38,112</u>	<u>-</u>
GAAP basis	<u>\$ 11,848</u>	<u>\$(187,914)</u>	<u>\$(3,037)</u>

**16. DISSOLUTION OF THE KINDIG NON EXPENDABLE TRUST FUND**

Per a letter received from the Kindig Family as of March 13, 2003, the Kindig Non-Expendable Trust Fund was dissolved and the balance and interest in the amount of \$1,646.32 was transferred to the Treasurer of Jefferson Local School District.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**17. CONTINGENCIES**

**A. Grants**

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2003.

**B. Litigation**

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

**C. State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio 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.

**18. SUBSEQUENT EVENTS**

The Center's Treasurer, Olivia L. Taylor, resigned on August 31, 2003. Judith E. Geers was hired as the Center's District Treasurer, effective September 1, 2003.

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR FISCAL YEAR ENDED JUNE 30, 2003**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>(Passed Through Ohio Department of Education)</i>				
National School Lunch Program	LL -P4 -02	10.555	\$1,926	\$1,926
	LL -P4 -03		13,873	13,873
Total National School Lunch Program			<u>15,799</u>	<u>15,799</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>(Passed Through Ohio Department of Education)</i>				
Special Education Preschool Grants	PG-S1-02	84.173	12,261	12,366
	PG-S1-03		67,894	67,894
Total Special Education Preschool Grants			<u>80,155</u>	<u>80,260</u>
Indicators of Success	PG-SC-02P	84.173		10,800
Title I Grants to Local Educational Agencies	C1-ST-02	84.010	15,339	48,148
	C1-ST-03		90,980	62,995
Total Title I Grants to Local Educational Agencies			<u>106,319</u>	<u>111,143</u>
Regional Balderidge Development	G2-S9-01	84.276		28,459
Comprehensive School Reform Demonstration	RF-S3-01	84.332		13,867
<i>(Passed through Ohio High Point Joint Vocational School District)</i>				
Adult Education State Grant Program	ABLE 00-03	84.002	13,500	13,500
Total U. S. Department of Education			199,974	258,029
<b>U. S. Department of Health and Human Services</b>				
<i>(Passed through Ohio Mental Retardation &amp; Developmental Disabilities)</i>				
Medical Assistance Program	N/A	93.778	148,065	148,065
Total Federal Financial Assistance			<u>\$363,838</u>	<u>\$421,893</u>

*See Accompanying Notes to the Schedule of Award Expenditures.*

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the "Schedule") summarizes activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - SCHOOL LUNCH PROGRAM**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE C - MATCHING REQUIREMENTS**

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

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**Auditor of State  
Betty Montgomery**

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

Madison-Champaign Educational Service Center  
Champaign County  
1512 South State Route 68, Suite J101  
Urbana, Ohio 43078

To the Board of Education:

We have audited the financial statements of Madison-Champaign Educational Service Center, Champaign County, (the "Center"), as of and for the fiscal-year ended June 30, 2003, and have issued our report thereon dated January 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the center in a separate letter dated January 27, 2004.

**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 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.

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Madison-Champaign Educational Service Center  
Champaign County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

January 27, 2004





## Auditor of State Betty Montgomery

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

Madison-Champaign Educational Service Center  
Champaign County  
1512 South State Route 68, Suite J101  
Urbana, Ohio 43078

To the Board of Education:

#### Compliance

We have audited the compliance of Madison-Champaign Educational Service, Champaign County (the Center) with the types of 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 each of its major federal programs is the responsibility of 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 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 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. However, we noted an instance of noncompliance relating to all federal programs that does not require inclusion in this report that we have reported to the management of the Center in a separate letter dated January 27, 2004.

### **Internal Control Over Compliance**

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

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

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

January 27, 2004

**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER  
CHAMPAIGN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2002-10311-001	Payroll Reconciliation	Yes	Corrected

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**Auditor of State  
Betty Montgomery**

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**MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER**

**CHAMPAIGN 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  
MARCH 4, 2004**