



**Auditor of State  
Betty Montgomery**



LICKING COUNTY EDUCATIONAL SERVICE CENTER  
LICKING COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Board of Education  
Licking County Educational Service Center  
Licking County  
675 Price Road  
Newark, Ohio 43055

We have audited the accompanying general-purpose financial statements of the Licking County Educational Service Center, Licking County, Ohio, (the Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Licking 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.

As discussed in Note 3 to the general-purpose financial statements, the Center changed its fixed asset capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2003, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

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**Betty Montgomery**  
**Auditor of State**

November 24, 2003

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LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNTS GROUPS  
 JUNE 30, 2003

	GOVERNMENTAL FUND TYPES	
	GENERAL	SPECIAL REVENUE
<u>Assets and Other Debits:</u>		
<u>Assets:</u>		
Cash and Cash Equivalents	\$543,226	\$84,284
Cash and Cash Equivalents in Segregated Accounts	0	0
<u>Receivables:</u>		
Accounts	4,004	69
Intergovernmental	766,935	0
Materials and Supplies Inventory	516	0
Prepaid Items	44,649	2,507
Fixed Assets (Net of Accumulated Depreciation)	0	0
 <u>Other Debits:</u>		
Amount to be Provided from General Government Resources	0	0
<b>Total Assets and Other Debits</b>	<b>\$1,359,330</b>	<b>\$86,860</b>
 <u>Liabilities, Fund Equity and Other Credits:</u>		
<u>Liabilities:</u>		
Accounts Payable	\$16,214	\$130
Accrued Wages and Benefits	482,275	32,195
Compensated Absences Payable	37,912	0
Intergovernmental Payable	65,233	5,554
Deferred Revenue	740,122	0
Due to Others	0	0
Capital Leases Payable	0	0
<b>Total Liabilities</b>	<b>1,341,756</b>	<b>37,879</b>
 <u>Fund Equity and Other Credits:</u>		
Investment in General Fixed Assets	0	0
<u>Fund Balances:</u>		
Reserved for Encumbrances	31,377	5,349
Reserved for Inventory	516	0
Unreserved (Deficit)	(14,319)	43,632
<b>Total Fund Equity and Other Credits</b>	<b>17,574</b>	<b>48,981</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$1,359,330</b>	<b>\$86,860</b>

See accompanying notes to the general purpose financial statements



FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
AGENCY			
\$0	\$0	\$0	\$627,510
95	0	0	95
0	0	0	4,073
0	0	0	766,935
0	0	0	516
0	0	0	47,156
0	378,020	0	378,020
0	0	297,288	297,288
<u>\$95</u>	<u>\$378,020</u>	<u>\$297,288</u>	<u>\$2,121,593</u>
\$0	\$0	\$0	\$16,344
0	0	0	514,470
0	0	216,107	254,019
0	0	38,261	109,048
0	0	0	740,122
95	0	0	95
0	0	42,920	42,920
<u>95</u>	<u>0</u>	<u>297,288</u>	<u>1,677,018</u>
0	378,020	0	378,020
0	0	0	36,726
0	0	0	516
0	0	0	29,313
<u>0</u>	<u>378,020</u>	<u>0</u>	<u>444,575</u>
<u>\$95</u>	<u>\$378,020</u>	<u>\$297,288</u>	<u>\$2,121,593</u>

LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
<u>Revenues:</u>			
Intergovernmental	\$1,819,527	\$446,949	\$2,266,476
Interest	13,116	0	13,116
Tuition and Fees	3,578,517	0	3,578,517
Gifts and Donations	8,213	44,314	52,527
Miscellaneous	27,826	4,390	32,216
Total Revenues	<u>5,447,199</u>	<u>495,653</u>	<u>5,942,852</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	46,480	11,708	58,188
Special	1,646,493	135,028	1,781,521
Support Services:			
Pupils	831,164	40,234	871,398
Instructional Staff	2,359,697	239,596	2,599,293
Board of Education	9,629	0	9,629
Administration	589,849	20,437	610,286
Fiscal	177,989	3,640	181,629
Business	14,542	0	14,542
Operation and Maintenance	92,563	61,176	153,739
Central	46,524	7,077	53,601
Debt Service:			
Principal Retirement	5,545	950	6,495
Interest and Fiscal Charges	2,054	409	2,463
Total Expenditures	<u>5,822,529</u>	<u>520,255</u>	<u>6,342,784</u>
Excess of Revenues Under Expenditures	(375,330)	(24,602)	(399,932)
<u>Other Financing Source:</u>			
Inception of a Capital Lease	<u>24,584</u>	<u>11,303</u>	<u>35,887</u>
Excess of Revenues and Other Financing Sources Under Expenditures	(350,746)	(13,299)	(364,045)
Restated Fund Balances at Beginning of Year (See Note 3)	368,728	62,280	431,008
Decrease in Reserve for Inventory	<u>(408)</u>	<u>0</u>	<u>(408)</u>
Fund Balances at End of Year	<u>\$17,574</u>	<u>\$48,981</u>	<u>\$66,555</u>

See accompanying notes to the general purpose financial statements

LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Revenues:</u>			
Intergovernmental	\$1,832,835	\$1,832,272	(\$563)
Interest	15,000	13,116	(1,884)
Tuition and Fees	3,510,088	3,592,110	82,022
Gifts and Donations	5,000	8,213	3,213
Miscellaneous	107,582	24,420	(83,162)
Total Revenues	<u>5,470,505</u>	<u>5,470,131</u>	<u>(374)</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	68,569	50,643	17,926
Special	1,830,927	1,600,191	230,736
Support Services:			
Pupils	935,062	830,897	104,165
Instructional Staff	2,476,815	2,310,521	166,294
Board of Education	12,525	9,253	3,272
Administration	653,221	610,274	42,947
Fiscal	186,294	179,679	6,615
Business	14,555	14,542	13
Operation and Maintenance	92,003	77,701	14,302
Pupil Transportation	107,355	0	107,355
Central	49,101	46,739	2,362
Total Expenditures	<u>6,426,427</u>	<u>5,730,440</u>	<u>695,987</u>
Excess of Revenues Under Expenditures	(955,922)	(260,309)	695,613
Fund Balances at Beginning of Year	724,126	724,126	0
Prior Year Encumbrances Appropriated	38,893	38,893	0
Fund Balances (Deficit) at End of Year	<u>(\$192,903)</u>	<u>\$502,710</u>	<u>\$695,613</u>

(Continued)

LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
 (Continued)

	SPECIAL REVENUE FUNDS		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>Revenues:</u>			
Intergovernmental	\$368,872	\$446,949	\$78,077
Interest	0	0	0
Tuition and Fees	0	0	0
Gifts and Donations	44,314	44,314	0
Miscellaneous	4,244	4,321	77
Total Revenues	<u>417,430</u>	<u>495,584</u>	<u>78,154</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	27,081	12,044	15,037
Special	162,174	134,821	27,353
Support Services:			
Pupils	42,280	40,656	1,624
Instructional Staff	264,126	242,712	21,414
Board of Education	0	0	0
Administration	23,139	21,302	1,837
Fiscal	6,638	6,638	0
Business	0	0	0
Operation and Maintenance	64,196	61,396	2,800
Pupil Transportation	3,914	0	3,914
Central	18,162	10,976	7,186
Total Expenditures	<u>611,710</u>	<u>530,545</u>	<u>81,165</u>
Excess of Revenues Under Expenditures	(194,280)	(34,961)	159,319
Fund Balances at Beginning of Year	74,442	74,442	0
Prior Year Encumbrances Appropriated	39,328	39,328	0
Fund Balances (Deficit) at End of Year	<u>(\$80,510)</u>	<u>\$78,809</u>	<u>\$159,319</u>

See accompanying notes to the general purpose financial statements

CAPITAL PROJECTS FUND			TOTAL (MEMORANDUM ONLY)		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$0	\$0	\$0	\$2,201,707	\$2,279,221	\$77,514
0	0	0	15,000	13,116	(1,884)
0	0	0	3,510,088	3,592,110	82,022
0	0	0	49,314	52,527	3,213
0	0	0	111,826	28,741	(83,085)
0	0	0	5,887,935	5,965,715	77,780
0	0	0	95,650	62,687	32,963
0	0	0	1,993,101	1,735,012	258,089
0	0	0	977,342	871,553	105,789
0	0	0	2,740,941	2,553,233	187,708
0	0	0	12,525	9,253	3,272
0	0	0	676,360	631,576	44,784
0	0	0	192,932	186,317	6,615
0	0	0	14,555	14,542	13
0	0	0	156,199	139,097	17,102
0	0	0	111,269	0	111,269
6,595	6,595	0	73,858	64,310	9,548
6,595	6,595	0	7,044,732	6,267,580	777,152
(6,595)	(6,595)	0	(1,156,797)	(301,865)	854,932
0	0	0	798,568	798,568	0
6,595	6,595	0	84,816	84,816	0
\$0	\$0	\$0	(\$273,413)	\$581,519	\$854,932

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## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **NOTE 1 - REPORTING ENTITY**

The Licking County Educational Service Center (the "Educational Service Center") is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Licking Heights, Lakewood, Licking Valley, North Fork, Northridge, and Southwest Licking Local School Districts, Granville Exempted Village School District, Newark and Heath City School Districts, and the Licking County Joint Vocational School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 57 support staff employees and 76 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

#### **A. Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

#### **B. Component Units**

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational 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 Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The Educational Service Center participates in the Licking Area Computer Association, the Licking County Joint Vocational School, the Central Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Metropolitan Educational Council, the School Study Council of Ohio, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan, which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 16 and 17.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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

The financial statements of the Educational 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 body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

#### **A. Basis Of Presentation - Fund Accounting**

The Educational 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 Educational Service Center functions or activities.

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 available expendable resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the governmental and fiduciary generic fund type categories.

#### **Governmental Fund Types:**

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

**General Fund** - The general fund is the operating fund of the Educational 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 Educational 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 expenditure for specified purposes.

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

#### **Fiduciary Fund Type:**

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The Educational Service Center's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **Account Groups:**

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

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

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

### **B. 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 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.

Basis of accounting refers to when revenues and expenditures or expenses 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 for the governmental and agency funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place, provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the modified accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is 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 Educational Service Center must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: charges for services, tuition, grants, and student fees.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

### Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

#### **C. Budgetary Data**

The budgetary process entails the preparation of budgetary documents within an established timetable. The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balances and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. The estimated revenues which appear on the financial statements reflect estimated resource amounts at the time final appropriations were passed.

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

#### **Appropriations:**

The annual appropriation resolution is enacted by the Educational Service Center at the fund level of expenditures. When necessary, the Educational Service Center board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The Educational Service Center board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

#### **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. 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.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

### **D. Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

The Educational Service Center has a segregated bank account for payroll. This checking account is presented on the combined balance sheet as "cash and cash equivalents in segregated accounts".

During fiscal year 2003, investments were limited to repurchase agreements and State Treasury Asset Reserve of Ohio (STAR Ohio). Repurchase agreements are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$13,116, which includes \$2,349 assigned from other Educational Service Center funds.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

### **E. Receivables and Payables**

Receivables and payables to be recorded on the Educational Service Center's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also, by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

### **F. Prepaid Items**

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 the purchase and an expenditure is reported in the year in which services are consumed.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **G. Inventory**

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

### **H. Fixed Assets and Depreciation**

The Education Service Center's only fixed assets are general fixed assets. 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 the related assets are reported in the general fixed assets account group. 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 Educational Service Center maintains a capitalization threshold of five hundred dollars.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Assets in the general fixed assets account group are not depreciated. The Educational Service Center does not have any infrastructure.

### **I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than three months of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after eleven years of current service with the Educational Service Center.

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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**J. 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. Capital leases are reported as a liability of the general long-term obligations account group until due.

**K. Fund Balance Reserves**

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

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. 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 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.

**M. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**N. 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 and results of operations 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 – RESTATEMENT OF PRIOR YEAR BALANCES**

The Educational Service Center reclassified June 30, 2002 monies from the general fund to the preschool program support special revenue fund at the beginning of fiscal year 2003. The Educational Service Center also increased their capitalization threshold from \$200 to \$500. The reclass of monies and the increase in the Educational Service Center's threshold had the following effect on fund balance as it was previously reported as of June 30, 2002.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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	<u>General Fund</u>	<u>Special Revenue</u>
Balances as previously reported	\$380,072	\$50,936
Reclass of monies	<u>(11,344)</u>	<u>11,344</u>
Restated Balances as of July 1, 2002	<u>\$368,728</u>	<u>\$62,280</u>

The general fixed assets account group decreased from \$492,803 to \$364,904 as of July 1, 2002.

**NOTE 4 – ACCOUNTABILITY**

The following fund had a deficit fund balance at June 30, 2003.

<u>Special Revenue Fund:</u>	<u>Excess</u>
Public Preschool	\$2,550

The deficit in the special revenue fund was the result of expenditures being made in excess of revenues. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis 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 (Budget Basis) - 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 GAAP basis are that:

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

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
GAAP Basis	(\$350,746)	(\$13,299)	\$0
Revenue Accruals	22,932	(69)	0
Expenditure Accruals	113,376	(19,790)	(6,595)
Beginning:			
Unrecorded Cash	0	4,438	0
Prepays	39,389	1,741	0
Ending:			
Unrecorded Cash	(95)	0	0
Prepaid Items	(44,649)	(2,507)	0
Encumbrances	<u>(40,516)</u>	<u>(5,475)</u>	<u>0</u>
Budget Basis	<u>(\$260,309)</u>	<u>(\$34,961)</u>	<u>(\$6,595)</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Educational 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 Educational Service 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 Board of Education has identified as not required for use within the current five 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 Educational Service 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 money deposited with the institution.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

### Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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Interim monies may be deposited or invested in the following securities:

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond 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) 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 for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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 Educational Service 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.

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

**Deposits:** At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$264,735) and the bank balance was \$69,232. All of the bank balance was covered by federal depository insurance.



**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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**Investments:** The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying and Fair Value</u>
Repurchase Agreement	\$534,371	\$534,371
STAR Ohio		<u>357,969</u>
Totals		<u><u>\$892,340</u></u>

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, "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 and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$627,605	\$0
Investments of the Cash Management Pool:		
Repurchase Agreements	(534,371)	534,371
STAR Ohio	<u>(357,969)</u>	<u>357,969</u>
GASB Statement 3	<u><u>(\$264,735)</u></u>	<u><u>\$892,340</u></u>

**NOTE 7 - STATE FUNDING**

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

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37. This amount is provided from State resources.

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

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2003, consisted of charges for services, excess costs, and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>General Fund</u>	<u>Amount</u>
Excess Costs	\$740,122
CAFS	20,625
AV-Van Service - Granville EVSD	3,764
Copies	105
Other	<u>2,319</u>
Total General Fund	<u><u>\$766,935</u></u>

**NOTE 9 - FIXED ASSETS**

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

	Restated Balance <u>6/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6/30/2003</u>
Furniture and Equipment	\$349,593	\$68,591	\$55,475	\$362,709
Vehicles	<u>15,311</u>	<u>0</u>	<u>0</u>	<u>15,311</u>
Total	<u><u>\$364,904</u></u>	<u><u>\$68,591</u></u>	<u><u>\$55,475</u></u>	<u><u>\$378,020</u></u>

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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**NOTE 10 - RISK MANAGEMENT**

The Educational 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. During fiscal year 2003, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 17)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Personal Property	\$523,400
Equipment (\$1,000 deductible)	100,000
Underground Water Seepage (\$1,000 deductible)	25,000
Accounts Receivable (\$1,000 deductible)	250,000
Extra Expense (\$1,000 deductible)	600,000
Automobile Liability (\$250 deductible comprehensive and \$500)	1,000,000
Uninsured Motorists (\$250 deductible comprehensive and \$500)	50,000
General Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

### Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$443,185, \$253,789 and \$201,001 respectively; 87.9% has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$8.61 made by the Educational Service Center and \$5,604 made by the plan members.

### **B. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (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 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 43215-3476.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

### Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was used to fund the pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$92,271, \$48,189 and \$34,022, respectively; 100 percent has been contributed for fiscal years 2002 and 2001. \$10,302 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the general long-term obligations account group.

#### **NOTE 12 - POST-EMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$34,092 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$86,451.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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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 \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

### **NOTE 13 - EMPLOYEE BENEFITS**

#### **A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn twenty to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 192 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 46 days.

#### **B. Insurance Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio. The Educational Service Center pays medical and drug monthly premiums of up to \$400 maximum per person. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides dental and prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center pays a dental premium of up to \$75.29 maximum per person. The Educational Service Center requires the employees to contribute \$5 for single coverage and \$10 for family coverage towards their total dental premium. The Educational Service Center also provides life insurance through Unum Life Insurance Company at a cost of \$6 per employee.

### **NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

The Educational Service Center has entered into a capitalized lease for photo-copying equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements. These expenditures are reported as function expenditures on the budgetary statements.

Equipment acquired by lease has been capitalized in the general fixed assets account group in the amount of \$52,176, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2003 totaled \$6,495.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the net minimum lease payments:

Year Ending June 30,	Total
2004	\$12,591
2005	12,591
2006	12,590
2007	8,629
2008	<u>3,634</u>
Total minimum lease payments	50,035
Less: Amount representing interest	<u>(7,115)</u>
Present value of minimum lease	<u><u>\$42,920</u></u>

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2003 were as follows:

	Outstanding <u>6/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	Outstanding <u>6/30/2003</u>
Compensated Absences	\$205,449	\$101,838	\$91,180	\$216,107
Capital Leases	13,528	35,887	6,495	42,920
Pension Obligation	<u>22,299</u>	<u>38,261</u>	<u>22,299</u>	<u>38,261</u>
Total Long-Term Obligations	<u><u>\$241,276</u></u>	<u><u>\$175,986</u></u>	<u><u>\$119,974</u></u>	<u><u>\$297,288</u></u>

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the general fund and the special revenue handicapped preschool fund.

## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

#### **A. Licking Area Computer Association**

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization 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 school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the Educational Service Center's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's fixed assets. The Educational Service Center's payments to LACA for computer services for fiscal year 2003 were \$38,379. Financial statements for LACA can be obtained from their fiscal agent - the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

#### **B. Licking County Joint Vocational School**

The Licking County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three board members from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. The Educational Service Center's payments to the Licking County Joint Vocational School for services for fiscal year 2003 were \$541. To obtain financial information write to the Licking County Joint Vocational School, Shirley Dupps, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

#### **C. Central Ohio Special Education Regional Resource Center**

The Central Ohio Educational Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. The Educational Service Center has a cooperative agency agreement with COSERRC. There is no financial commitment by the Educational Service Center for its participation in the projects. The District is represented on the governing board by a district member. Nothing was paid to COSERRC during fiscal year 2003. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

#### **D. Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over a hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various inservice for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Educational Service Center's membership fee was \$300 for fiscal year 2003.



## LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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### **E. Metropolitan Educational Council**

The Educational Service Center participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The Educational Service Center does not participate in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Educational Service Center's membership payment to MEC for fiscal year 2003 was \$300. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

### **F. School Study Council of Ohio**

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of representatives from numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. School districts may elect to be associate members which entitles them to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2003, the Board consisted of fourteen members. In fiscal year 2003, the Licking Educational Service Center obtained active membership privileges and paid a membership fee of \$300.

### **NOTE 17 - INSURANCE PURCHASING POOLS**

#### **A. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as 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. Ohio School Plan**

The Education Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER, OHIO**

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 2003

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**NOTE 18 - CONTINGENCIES**

**A. Grants**

The Educational 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

**B. Litigation**

The Educational Service Center is currently not party to any litigation.

**NOTE 19 – STATE SCHOOL FUNDING**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision 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 Educational Service Center is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.



## **Auditor of State Betty Montgomery**

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

Board of Education  
Licking County Educational Service Center  
Licking County  
675 Price Road  
Newark, Ohio 43055

We have audited the general-purpose financial statements of the Licking County Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003, wherein we noted the Center increased its threshold for capitalization of fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

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

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose 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 Center in a separate letter dated November 24, 2003.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

This report is intended 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 24, 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

**LICKING COUNTY EDUCATIONAL SERVICE CENTER**

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 6, 2004**