



**MEDINA COUNTY SCHOOLS' EDUCATIONAL SERVICE CENTER  
MEDINA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**MEDINA COUNTY SCHOOLS' EDUCATIONAL SERVICE CENTER  
MEDINA COUNTY**

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## REPORT OF INDEPENDENT ACCOUNTANTS

Medina County Schools' Educational Service Center  
Medina County  
124 West Washington Street  
Medina, Ohio 44256

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Medina County Schools' Educational Service Center, Medina County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Medina County Schools' Educational Service Center, Medina County, Ohio, as of June 30, 2001, and the results of its operations and the cash flows of its non-expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the Government adopted Governmental Accounting Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2001 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**Jim Petro**  
Auditor of State

December 12, 2001

**Medina County Schools' Educational Service Center**

*Combined Balanced Sheet*

*All Fund Types and Account Groups*

*June 30, 2001*

	Governmental Fund Types		Fiduciary Fund Type
	General	Special Revenue	Non-Expendable Trust
<b>Assets and Other Debit</b>			
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$943,956	\$19,679	\$101,907
Receivables:			
Accrued Interest	6,844	0	0
Inergovernmental	95,886	2,635	0
Fixed Assets	0	0	0
<b>Other Debit</b>			
Amount to be Provided from General Government Resources	0	0	0
<b>Total Assets and Other Debit</b>	<b>\$1,046,686</b>	<b>\$22,314</b>	<b>\$101,907</b>
<b>Liabilities, Fund Balance and Other Credits</b>			
<b>Liabilities</b>			
Deferred Revenue	\$29,963	\$2,130	\$0
Accounts Payable	8,089	8	5,625
Accrued Wages	34,158	110	0
Intergovernmental Payable	107,807	4,941	0
Compensated Absences Payable	35,001	0	0
<b>Total Liabilities</b>	<b>215,018</b>	<b>7,189</b>	<b>5,625</b>
<b>Fund Balance and Other Credits</b>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	204,413	10,320	0
Reserved for Principal	0	0	96,282
Unreserved, Undesignated	627,255	4,805	0
<b>Total Fund Balance and Other Credits</b>	<b>831,668</b>	<b>15,125</b>	<b>96,282</b>
<b>Total Liabilities, Fund Balance and Other Credits</b>	<b>\$1,046,686</b>	<b>\$22,314</b>	<b>\$101,907</b>

See accompanying notes to the general purpose financial statements

<u>Account Groups</u>		
<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Totals (Memorandum Only)</u>
\$0	\$0	\$1,065,542
0	0	6,844
0	0	98,521
439,721	0	439,721
<u>0</u>	<u>123,266</u>	<u>123,266</u>
<u>\$439,721</u>	<u>\$123,266</u>	<u>\$1,733,894</u>
\$0	\$0	\$32,093
0	0	13,722
0	0	34,268
0	2,792	115,540
<u>0</u>	<u>120,474</u>	<u>155,475</u>
<u>0</u>	<u>123,266</u>	<u>351,098</u>
439,721	0	439,721
0	0	214,733
0	0	96,282
<u>0</u>	<u>0</u>	<u>632,060</u>
<u>439,721</u>	<u>0</u>	<u>1,382,796</u>
<u>\$439,721</u>	<u>\$123,266</u>	<u>\$1,733,894</u>

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**Medina County Schools' Educational Service Center**

*Combined Statement of Revenues, Expenditures*

*and Changes in Fund Balances*

*All Governmental Fund Types*

*For the Fiscal Year Ended June 30, 2001*

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Revenues</b>			
Intergovernmental	\$1,484,632	\$96,387	\$1,581,019
Customer Services	1,542,119	24,362	1,566,481
Interest	62,238	0	62,238
<i>Total Revenues</i>	<u>3,088,989</u>	<u>120,749</u>	<u>3,209,738</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Adult/Continuing	0	127,017	127,017
Other	0	2,000	2,000
Support Services:			
Pupils	60,210	0	60,210
Instructional Staff	2,029,339	10,688	2,040,027
Board of Education	15,258	0	15,258
Administration	225,893	0	225,893
Fiscal	158,893	0	158,893
Business	436,410	0	436,410
Pupil Transportation	5,560	0	5,560
Central	150,626	0	150,626
Extracurricular Activities	98,668	0	98,668
<i>Total Expenditures</i>	<u>3,180,857</u>	<u>139,705</u>	<u>3,320,562</u>
<i>Excess of Revenues (Under) Expenditures</i>	(91,868)	(18,956)	(110,824)
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	5,836	0	5,836
Operating Transfers Out	0	(5,836)	(5,836)
<i>Total Other Financing Sources (Uses)</i>	<u>5,836</u>	<u>(5,836)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses</i>	(86,032)	(24,792)	(110,824)
<i>Fund Balances Beginning of Year</i>	<u>917,700</u>	<u>39,917</u>	<u>957,617</u>
<i>Fund Balances End of Year</i>	<u><u>\$831,668</u></u>	<u><u>\$15,125</u></u>	<u><u>\$846,793</u></u>

See accompanying notes to the general purpose financial statements

**Medina County Schools' Educational Service Center**

*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, 2001*

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Intergovernmental	\$1,459,553	\$1,484,633	\$25,080
Customer Services	2,096,907	1,536,046	(560,861)
Interest	50,000	70,989	20,989
<i>Total Revenues</i>	<u>3,606,460</u>	<u>3,091,668</u>	<u>(514,792)</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Adult/Continuing	0	0	0
Other	0	0	0
Support Services:			
Pupils	66,475	60,860	5,615
Instructional Staff	2,383,624	2,161,074	222,550
Board of Education	19,550	15,258	4,292
Administration	254,593	236,354	18,239
Fiscal	172,871	157,649	15,222
Business	1,144,832	460,160	684,672
Pupil Transportation	5,600	5,560	40
Central	159,908	148,380	11,528
Extracurricular Activities:	105,495	101,023	4,472
<i>Total Expenditures</i>	<u>4,312,948</u>	<u>3,346,318</u>	<u>966,630</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(706,488)</u>	<u>(254,650)</u>	<u>451,838</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	0	5,836	5,836
Operating Transfers Out	0	0	0
Other Financing Uses	(40,000)	0	40,000
<i>Total Other Financing Sources (Uses)</i>	<u>(40,000)</u>	<u>5,836</u>	<u>45,836</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(746,488)</u>	<u>(248,814)</u>	<u>497,674</u>
<i>Fund Balances Beginning of Year</i>	938,497	938,497	0
<i>Prior Year Encumbrances Appropriated</i>	<u>42,277</u>	<u>42,277</u>	<u>0</u>
<i>Fund Balances End of Year</i>	<u>\$234,286</u>	<u>\$731,960</u>	<u>\$497,674</u>

See accompanying notes to the general purpose statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$93,387	\$96,387	\$3,000	\$1,552,940	\$1,581,020	\$28,080
28,000	26,346	(1,654)	2,124,907	1,562,392	(562,515)
0	0	0	50,000	70,989	20,989
<u>121,387</u>	<u>122,733</u>	<u>1,346</u>	<u>3,727,847</u>	<u>3,214,401</u>	<u>(513,446)</u>
150,041	136,964	13,077	150,041	136,964	13,077
2,000	2,000	0	2,000	2,000	0
0	0	0	66,475	60,860	5,615
23,224	15,375	7,849	2,406,848	2,176,449	230,399
0	0	0	19,550	15,258	4,292
0	0	0	254,593	236,354	18,239
0	0	0	172,871	157,649	15,222
0	0	0	1,144,832	460,160	684,672
0	0	0	5,600	5,560	40
0	0	0	159,908	148,380	11,528
0	0	0	105,495	101,023	4,472
<u>175,265</u>	<u>154,339</u>	<u>20,926</u>	<u>4,488,213</u>	<u>3,500,657</u>	<u>(987,556)</u>
<u>(53,878)</u>	<u>(31,606)</u>	<u>22,272</u>	<u>(760,366)</u>	<u>(286,256)</u>	<u>474,110</u>
0	0	0	0	5,836	5,836
(5,836)	(5,836)	0	(5,836)	(5,836)	0
0	0	0	(40,000)	0	40,000
<u>(5,836)</u>	<u>(5,836)</u>	<u>0</u>	<u>(45,836)</u>	<u>0</u>	<u>45,836</u>
(59,714)	(37,442)	22,272	(806,202)	(286,256)	519,946
44,701	44,701	0	925,219	925,219	0
2,096	2,096	0	93,084	93,084	0
<u>(\$12,917)</u>	<u>\$9,355</u>	<u>\$22,272</u>	<u>\$212,101</u>	<u>\$732,047</u>	<u>\$519,946</u>

**Medina County Schools' Educational Service Center**

*Statement of Revenues, Expenses*

*and Changes in Fund Balance Non-Expendable Trust Fund*

*For the Fiscal Year Ended June 30, 2001*

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	Non-Expendable Trust
<b>Operating Revenues</b>	
Interest	\$5,957
Contributions and Donations	2,082
<i>Total Operating Revenues</i>	<u>8,039</u>
<b>Operating Expenses</b>	
Scholarships	<u>5,625</u>
<i>Total Operating Expenses</i>	<u>5,625</u>
<i>Operating Income</i>	2,414
<i>Fund Balance Beginning of Year</i>	<u>93,868</u>
<i>Fund Balance End of Year</i>	<u><u>\$96,282</u></u>

See accompanying notes to the general purpose financial statements

**Medina County Schools' Educational Service Center**  
*Combined Statement of Revenues, Expenses  
and Changes in Fund Balance - Budget and Actual (Budget Basis)  
Non-Expendable Trust Fund  
For the Fiscal Year Ended June 30, 2001*

	Non-Expendable Trust		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Interest	\$6,500	\$5,957	(\$543)
Contributions and Donations	1,900	2,082	182
<i>Total Revenues</i>	<u>8,400</u>	<u>8,039</u>	<u>(361)</u>
<b>Expenses</b>			
Scholarships	6,500	5,472	1,028
<i>Total Expenses</i>	<u>6,500</u>	<u>5,472</u>	<u>1,028</u>
<i>Excess of Revenues Over Expenses</i>	1,900	2,567	667
<i>Fund Balance Beginning of Year</i>	<u>99,340</u>	<u>99,340</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$101,240</u></u>	<u><u>\$101,907</u></u>	<u><u>\$667</u></u>

See accompanying notes to the general purpose financial statements

**Medina County Schools' Educational Service Center**

*Statement of Cash Flows*

*Non-Expendable Trust Fund*

*For the Fiscal Year Ended June 30, 2001*

	Non-Expendable Trust
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Donations	\$2,082
Cash Payments for Other Operating Expenses	<u>(5,472)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(3,390)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>5,957</u>
<i>Net Cash Provided by Investing Activities</i>	<u>5,957</u>
<i>Net Increase in Cash and Cash Equivalents</i>	2,567
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>99,340</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$101,907</u></u>
<b>Reconciliation of Net Loss to Net Cash Used for Operating Activities:</b>	
<i>Operating Income</i>	\$2,414
<b>Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:</b>	
Interest	(5,957)
Increase in Accounts Payable	<u>153</u>
<i>Total Adjustments</i>	<u>(5,804)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$3,390)</u></u>

See accompanying notes to the general purpose financial statements

**Medina County Schools'**  
**Educational Service Center**  
*Notes to the General Purpose Financial Statement*  
*June 30, 2001*

**Note 1 - Description of the Medina County Schools' Educational Service Center**

The Medina County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 32 noncertificated, 14 certificated teaching personnel, and 3 administrators who provide services to 27,870 students through the school districts in Medina County.

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

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 entitled to or can otherwise access the organization's resources; 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. The Medina County Schools' Educational Service Center has no component units.

The Educational Service Center is associated with the Lake Erie Educational Computer Association (LEECA) which is defined as a Jointly Governed Organization, the Ohio School Boards Association's Worker's Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the general purpose financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The significant accounting policies followed in the preparation of these general purpose financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements, and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies are described below:

*A. Basis Of Presentation - Fund Accounting*

**Medina County Schools'**  
**Educational Service Center**  
*Notes to the General Purpose Financial Statement*  
*June 30, 2001*

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 regulations, restrictions or limitations. An account group 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.

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

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 (except those accounted for in trust funds) 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 (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Fiduciary Fund Types:

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 governmental units and/or other funds. These include non-expendable trust funds. Non-expendable trust funds account for trust principal that may not be expended. Only interest earned on the principal may be used for trust operations. These funds are accounted for in essentially the same manner as proprietary funds.



**Medina County Schools'**  
**Educational Service Center**  
*Notes to the General Purpose Financial Statement*  
*June 30, 2001*

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, other than those accounted for in the trust fund.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the trust fund.

*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 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 funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is 60 days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and customer services.

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. The accrual basis of accounting is authorized for reporting purposes by the non-expendable trust fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

**Medina County Schools'**  
**Educational Service Center**  
*Notes to the General Purpose Financial Statement*  
*June 30, 2001*

C. *Budgetary Data*

Provisions of the Ohio Revised Code prescribe the budgetary process. Annually, on or before a date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

Appropriations:

The annual appropriation resolution must be legally enacted by the Medina County Schools' Governing Board at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. The Governing Board must approve any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions. The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures that 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, other than agency 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 and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

Lapsing of Appropriations:

At 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 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 in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through the Educational

**Medina County Schools'**  
**Educational Service Center**  
*Notes to the General Purpose Financial Statement*  
*June 30, 2001*

Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2001, investments were limited to U. S. Treasury Notes, Certificates of Deposit, and STAR Ohio, the State Treasurer's Investment Pool. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio") during fiscal year 2001. 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, 2001.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2001, the general fund and the non-expendable trust funds received interest allocations. Interest revenue earned in 2001 totaled \$68,195, \$62,238 to the general fund and \$5,957 to the non-expendable trust fund.

*E. Inventory*

Inventories are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve which indicates that it does not constitute available spendable resources even though it is a component of net current assets. There was no inventory balance as of June 30, 2001.

*F. Fixed Assets and Depreciation*

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the General Fixed Assets Account Group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

Improvements, other than 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 capitalized. Assets in the General Fixed Assets Account Group are not depreciated.

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G. *Intergovernmental Revenues*

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

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

Entitlements

General Fund

State Foundation Program

Special Revenue Fund

Bus Driver Training Program

Non-Reimbursable Grants

Special Revenue Funds

TOPS

Educational Management Information System (EMIS)

Entry Year

SchoolNet

Grants and entitlements amounted to 49% of the Educational Service Center's operating revenue during the 2001 fiscal year.

H. *Compensated Absences*

The Educational Service Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed 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. Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is based on an estimate of the amount accumulated sick leave that will probably be paid as a termination benefit.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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.

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*I. Accrued Liabilities and Long-Term Obligations*

In general, governmental payables and accrued liabilities are reported as claims and judgments of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from government 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 expendable available financial resources.

*J. Interfund Transactions*

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses 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. There were no interfund transactions as of June 30, 2001.

*K. Fund Balance Reserves*

The Educational Service Center records reservations for portions of fund balance which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Fund balance reserves are established for encumbrances and contributions to the non-expendable trust funds that must be kept intact.

*L. 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.

*M. Total Columns on General Purpose Financial Statements*

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

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**Note 3 – Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law 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/expenses 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.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources  
(Under) Expenditures and Other Financing Uses

	<u>General</u>	<u>Special Revenue</u>
<i>GAAP Basis</i>	(\$86,032)	(\$24,792)
Net Adjustment for Revenue Accruals	2,679	1,984
Net Adjustment for Expenditure Accruals	46,536	(4,314)
Adjustment for Encumbrances	<u>(211,997)</u>	<u>(10,320)</u>
<i>Budget Basis</i>	<u><u>(\$248,814)</u></u>	<u><u>(\$37,442)</u></u>

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Operating Income/Excess of Revenues Over Expenses

	Non-Expendable Trust
<i>GAAP Basis</i>	\$2,414
Net Adjustment for Expenditure Accruals	153
<i>Budget Basis</i>	\$2,567

**Note 4 - Cash and Investments**

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

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as a 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 other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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;

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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 does not exceed 30 days;
4. Bonds or 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 moneys 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 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 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 custodial risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits:

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$135,012 and the bank balance was \$364,257. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$164,257 was uninsured and unregistered 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 Educational Service Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to successful claim by the Federal Deposit Insurance Corporation.



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

Investments:

The Educational Service Center's Investments are categorized below to give an indication of the level of custodial risk assumed by the Educational Service Center at year-end. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, 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. At fiscal year end the carrying value and market value of the investments in Treasury Notes and STAR Ohio are as indicated in the following chart.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Treasury Notes	\$299,438	\$299,438	\$301,563
STAR Ohio		<u>631,092</u>	<u>631,092</u>
<b>TOTALS</b>		<u><u>\$930,530</u></u>	<u><u>\$932,655</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. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
<i>GASB Statement 9</i>	\$1,065,542	\$0
Investments which are part of a Cash Management pool:		
Treasury Notes	(299,438)	299,438
STAR Ohio	<u>(631,092)</u>	<u>631,092</u>
<i>GASB Statement 3</i>	<u><u>\$135,012</u></u>	<u><u>\$930,530</u></u>

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**Note 5 - Receivables**

Receivables at June 30, 2001, consisted of intergovernmental receivables. These receivables are considered collectible in full since they reflect the amounts received for customer services from other school districts during the first 60 days of fiscal year 2002.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Customer Services	\$95,886
<i>Total General Fund</i>	<u>95,886</u>
Special Revenue Funds:	
Customer Services	2,635
<i>Total Special Revenue Funds</i>	<u>2,635</u>
<i>Total Intergovernmental Receivables</i>	<u>\$98,521</u>

**Note 6 - State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. (For an explanation of the budget, see Note 2 - Budgetary Data.)

Part (B) of the budget is funded in the following way: \$6.50 times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the school districts to which the Medina County Schools' Educational Service Center provides services from payments made under the State's foundation program. Simultaneously, 37 dollars times the sum of the ADM is paid by the State Board of Education from State funds of the Educational Service Center.

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

**Note 7 - Jointly Governed Organizations and Public Entity Risk Pools**

*A. Jointly Governed Organizations*

The Lake Erie Educational Computer Association (LEECA) is a not-for profit computer organization owned and operated by 31 class "C" sites in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These "C" sites are comprised of various public school districts and educational service centers in the counties previously mentioned. The jointly governed 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 districts. LEECA is organized under Chapter

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167 and 3313 of the Ohio Revised Code. LEECA is governed by an assembly that consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and a least one member from each participating county. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

*B. Insurance Purchasing Pool*

The Educational Service Center participates in a group rating plan for workers’ compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers’ Compensation Group Rating Program (WCGRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The WCGRP’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 districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

*C. Risk Sharing Pool*

The Stark County Schools Council of Governments is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts are calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding twelve month period.

**Note 8 - Fixed Assets**

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance <u>July 01, 2000</u>	Additions	Deletions	Balance <u>June 30, 2001</u>
Furniture and Equipment	\$422,954	\$45,891	(\$29,124)	\$439,721

There was no significant construction in progress at June 30, 2001.

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**Note 9 - Risk Management**

The Educational Service 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 2001, the Educational Service Center contracted with Westfield Companies for a Commercial Package Policy. This policy covers furniture and equipment that is located in our Technology Department at the Professional Development Building. All other furniture and equipment is covered by insurance provided by the Medina County Commissioners.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Vehicles are covered by The Cincinnati Insurance Company and hold a \$100 deductible for comprehensive and a \$250 deductible for collision. Policy includes coverage for Hired and Nonowned Automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2001, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 7B). The Program is intended to reduce premiums for the participants. 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 Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program.

Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

**Note 10 - Defined Benefit Pension Plans**

*A. School Employees Retirement System*

The Educational Service 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's required contributions to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$168,481, \$156,267, and

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\$125,745, respectively; 97% has been contributed for fiscal year 2001 and 100% for fiscal years 2000 and 1999.

*B. State Teachers Retirement System*

The Educational Service 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 9.5% was the portion used to fund pension obligations. Contribution rates are established by 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 Educational Service Center's required contributions to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$104,485, \$95,820, and \$122,122, respectively; 100% has been contributed for fiscal years 2000 and 1999; fiscal year 2001 contributions were paid in full in August 2001. The unpaid portion of \$104,485 is recorded as a liability within the respective funds.

*C. Social Security System*

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, three members of the Governing Board have elected social security. The board's liability is 6.2% of wages paid.

**Note 11 - Postemployment Benefits**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certificated employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare 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 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. Through June 30, 2001, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$59,706 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest

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information available), net health care costs paid by STRS were \$283.173 million and STRS had 99,011 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% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8% 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 2001 the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 million and SERS had approximately 50,000 participating receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$104,482, during the 2001 fiscal year.

**Note 12 - Other Employee Benefits**

*A. Compensated Absences*

Certified and Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time up to two years plus the prorated share of the current year is paid to all employees upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 240 days.

*B. Life Insurance*

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through UNUM Life Insurance Co. of America.

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**Note 13 - Long Term Obligations**

Changes in long-term obligations of the Educational Service Center from June 30, 2000 to June 30, 2001, were as follows:

	<u>June 30, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2001</u>
Intergovernmental Payable	\$2,121	\$2,792	(\$2,121)	\$2,792
Compensated Absences	<u>115,807</u>	<u>0</u>	<u>4,667</u>	<u>120,474</u>
<i>Total General Long Term Obligations</i>	<u><u>\$117,928</u></u>	<u><u>\$2,792</u></u>	<u><u>\$2,546</u></u>	<u><u>\$123,266</u></u>

Compensated absences and intergovernmental payables will be paid from the fund from which the person is paid.

**Note 14 - Contingencies**

*A. Grants*

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Medina County Schools’ Educational Service Center at June 30, 2001.

*B. Litigation*

The Educational Service Center is not a party to any legal proceedings.

**Note 15 – State School Funding Issue**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional. Including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than the fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 3, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing

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the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, the final decision will have on its future State funding under this program and on its financial operations.

**Note 16 – Change in Accounting Principle**

For fiscal year 2001, the Educational Service Center has implemented GASB Statement No. 33 “Accounting and Financial Reporting for Non-exchange Transactions”. The implementation of GASB Statement No. 33 had no significant impact on other financial statements.

**Note 17 – Operating Lease**

The Educational Service Center is obligated under a lease for office space that is accounted for as an operating lease.

The following is a schedule by year of future minimum rental payments required under the operating lease:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amounts</u>
2002	\$ 42,693
2003	32,256
2004	<u>8,104</u>
Total	<u>\$ 83,053</u>





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Medina County Schools' Educational Service Center  
Medina County  
124 West Washington Street  
Medina, Ohio 44256

To the Board of Education:

We have audited the general purpose financial statements of Medina County Schools' Educational Service Center, Medina County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2000, and have issued our report thereon dated December 12, 2001. 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 Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

Medina County Schools' Educational Service Center  
Medina County  
Report of Independent Accountants 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, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

December 12 , 2001



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**MEDINA COUNTY SCHOOLS EDUCATIONAL SERVICE CENTER**

**MEDINA 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 10, 2002**