FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY

SINGLE AUDIT

For the Year Ended June 30, 2003

Auditor of State
Betty Montgomery

Board of Education
Franklin County Educational Service Center
1717 Alum Creek Dr.
Columbus, OH 43207

We have reviewed the Independent Auditor's Report of the Franklin County Educational Service Center, Franklin County, prepared by Jones, Cochenour & Company, for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Franklin County Educational Service Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 21, 2004

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FRANKLIN COUNTY EDUCATION SERVICE CENTER
FRANKLIN COUNTY

TABLE OF CONTENTS

Jones, Cochenour & Co.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Franklin County Educational Service Center, Franklin County, Ohio, (the Service Center) as of and for the year ended June 30, 2003, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Franklin County Educational Service Center, Franklin County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable, the respective budgetary comparisons for the General and Title VI-B and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus,* Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosure*, Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and Governmental Accounting Standards Board Statement Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2004 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form an opinion on the financial statements that collectively comprise the Service Center's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Jones, Cochenour & Co.

Jones, Cochenour & Co.
June 25, 2004

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2003

Unaudited

The discussion and analysis of the Franklin County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

Overall:

* **Total net assets decreased $1,226,044 in Governmental Activities.**

* **Total Revenue increased to $23,872,967 in 2003, an increase of $385,499.**

* **Total program expenses were $25,099,011 in 2003, an increase of $1,921,485 in Governmental Activities.**

* **The Center has no outstanding debt.**

***Governmental Activities*:**

* **Governmental Activities include the General Fund, Special Revenue Funds and Internal Service Funds.**

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Center, the general fund is by far the most significant fund.

Reporting the District as a Whole

<u>Statement of Net Assets and the Statement of Activities</u>

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses regardless of when cash is received or paid.

These two statements report the Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the *Statement of Net Assets* and the *Statement of Activities*, the Center only has Governmental Activities.

- **Governmental Activities – All of the Center's programs and services except for Agency Funds are reported here including instruction, support services, and operation of the Center.**

Reporting the Center's Most Significant Funds

<u>Fund Financial Statements</u>

The analysis of the Center's major funds begins on page 10. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund and Title VI-B special revenue fund.

Governmental Funds:

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and some of the balances left at year-end available for spending in future periods. These funds are reported using an accounting method known as modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities)* and governmental funds is reconciled in the financial statements.

Unaudited

The Educational Service Center as a Whole

The Center's total net assets decreased from a year ago, as shown in Table 2.

Table 1
Statement of Net Assets
Governmental Activities

Assets	
Equity in Pooled Cash and Cash Equivalents	$7,820,232
Interfund Receivables	341,527
Intergovernmental Receivables	1,831,696
Prepaid Items	16,859
Depreciable Capital Assets, Net	755,580
Total Assets	10,765,894
Liabilities	
Accounts Payable	353,736
Accrued Wages and Benefits	1,588,265
Intergovernmental Payable	300,627
Claims Payable	627,779
Long-Term Liabilities:	
Due in Within One Year	8,520
Due In More Than One Year	758,209
Total Liabilities	3,637,136
Net Assets	
Invested in Capital Assets	755,580
Restricted for Other Purposes	624,697
Unrestricted	5,748,481
Total Net Assets	$7,128,758

Unaudited

Table 2 highlights the Center's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: Program revenue and General Revenue. Program revenue is defined as restricted grants and charges for services. General revenues include investment earnings, miscellaneous income, and unrestricted grants such as foundation support.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

Since this is the first year the Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. However, this table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusions about the Center's current financial status.

Table 2
Program Revenues and Expenses

	Governmental Activities 2003
Revenues	
Program Revenues:	
Charges for Services	$12,615,285
Operating Grants	5,432,212
General Revenues:	
Investment Earnings	105,696
Grants and Entitlements	5,681,824
Miscellaneous	37,950
Total Revenues	$23,872,967
Program Expenses	
Instruction:	
Regular	$34,234
Special	7,740,264
Vocational	537,369
Other Instruction	1,000
Support Services:	
Pupils	793,365
Instructional Staff	9,454,998
Board of Education	76,113
Administration	4,990,109
Fiscal	514,974
Business	227,665
Operation & Maintenance of Plant	540,032
Pupil Transportation	29,491
Central	8,107
Community Services	151,290
Total Expenses	$25,099,011
Decrease in Net Assets	$(1,226,044)

Unaudited

Table 3 shows, for governmental activities, program expenses and revenues and Net (Expense) Revenue and changes in Net Assets.

Table 3 shows, for governmental activities, program expenses and revenues and Net (Expense) Revenue and changes in Net Assets. **The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The $7,051,514, Net Cost of Services 2003 tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements. The net result is a decrease of $1,226,044 resulting from some revenues not being received in the available period.**

Table 3
Governmental Activities

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$34,234			($34,234)
Special	7,740,264	$3,993,211	$57,091	(3,689,962)
Vocational	537,369		498,224	(39,145)
Other	1,000		932	(68)
Support Services:				
Pupil	793,365	868,042	123,153	197,830
Instructional Staff	9,454,998	7,310,039	1,219,490	(925,469)
Board of Education	76,113			(76,113)
Administration	4,990,109	286,863	3,005,957	(1,697,289)
Fiscal	514,974		134,748	(380,226)
Business	227,665	157,130		(70,535)
Operation & Maintenance of Plant	540,032		251,622	(288,410)
Pupil Transportation	29,491			(29,491)
Central	8,107			(8,107)
Community Services	151,290		140,995	(10,295)
Total Governmental Activities	25,099,011	12,615,285	5,432,212	(7,051,514)

General Revenues	
Grants & Entitlements not Restricted to Specific Programs	5,681,824
Investment Earnings	105,696
Miscellaneous	37,950
Total General Revenues	5,825,470
Change in Net Assets	(1,226,044)
Net Assets at Beginning of Year	8,354,802
Net Assets End of Year	$7,128,758

Unaudited

The Center's Funds

Information about the Center's major funds begins on page 10. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $23,858,808 and expenditures of $24,549,002.

General Fund Budgeting Highlights

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of fiscal 2003, the Center amended its budgets, none significant. The Center uses program based budgeting and the budgeting systems are designed to tightly control budgets but provide flexibility for management.

Capital Assets

At the end of fiscal 2003, the Center had $755,580 invested in equipment, vehicles, and furniture. The decrease in the governmental activities capital assets is due to the Central Ohio Special Education Regional Resource Center (COSERRC) receiving approval from the Ohio Department of Education to delete from their inventory obsolete technology equipment. The additions to the governmental activities included the purchase of technology equipment and furniture in the amount of $161,783. The Agency funds, which the Center is the fiscal agent, deleted obsolete technology equipment in the amount of $150,066. The Center, COSERRC and other agencies and consortium grants added technology equipment during fiscal 2003 in the amount of $34,640.

Table 4 shows capital asset activity for the fiscal year ended June 30, 2003, as follows:

TABLE 4
CAPITAL ASSETS, NET

	Balance at June 30, 2002	Additions	Reductions	Balance at June 30, 2003
Governmental activities				
Furniture and equipment	$ 2,075,713	$ 161,783	$ (1,069,859)	$ 1,167,637
Vehicles	178,479	-	-	178,479
Total at historical cost	2,254,192	161,783	(1,069,859)	1,346,116
Less accumulated depreciation:				
Furniture and equipment	(1,072,499)	(102,565)	677,162	(497,902)
Vehicles	(78,243)	(14,391)	-	(92,634)
Total accumulated depreciation	(1,150,742)	(116,956)	677,162	(590,536)
Governmental activities				
Capital assets, net	$ 1,103,450	$ 44,827	$ (392,697)	$ 755,580

The following is a summary of changes in the Agency Funds during the fiscal year 2003:

	Agency Fund Fixed Assets June 30, 2002	Additions	Deletions	Agency Fund Fixed Assets June 30, 2003
Furniture and Equipment	$ 240,418	$ 34,640	$(150,066)	$ 124,992

Unaudited

For the Future

The Center is in a stable financial position at the end of June, 2003. The Governing Board has established a Permanent Improvement Fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Regional Educational Delivery Systems will have an impact on educational service centers beginning in the Fall of 2004. At this time it is impossible to determine what effect this legislation will have on the Franklin County Educational Service Center.

Contacting the District's Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional information should be directed to Marjorie Fenton, Treasurer, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43207.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF NET ASSETS
June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$7,820,232
Interfund Receivables	341,527
Intergovernmental Receivables	1,831,696
Prepaid Items	16,859
Depreciable Capital Assets, Net	755,580
Total Assets	10,765,894
Liabilities	
Accounts Payable	353,736
Accrued Wages and Benefits	1,588,265
Intergovernmental Payable	300,627
Claims Payable	627,779
Long-Term Liabilities:	
Due Within One Year	8,520
Due In More Than One Year	758,209
Total Liabilities	3,637,136
Net Assets	
Invested in Capital Assets	755,580
Restricted for Other Purposes	624,697
Unrestricted	5,748,481
Total Net Assets	$7,128,758

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities				
Instruction:				
Regular	$34,234			($34,234)
Special	7,740,264	$3,993,211	$57,091	(3,689,962)
Vocational	537,369		498,224	(39,145)
Other	1,000		932	(68)
Support Services:				
Pupil	793,365	868,042	123,153	197,830
Instructional Staff	9,454,998	7,310,039	1,219,490	(925,469)
Board of Education	76,113			(76,113)
Administration	4,990,109	286,863	3,005,957	(1,697,289)
Fiscal	514,974		134,748	(380,226)
Business	227,665	157,130		(70,535)
Operation and Maintenance of Plant	540,032		251,622	(288,410)
Pupil Transportation	29,491			(29,491)
Central	8,107			(8,107)
Community Services	151,290		140,995	(10,295)
Total Governmental Activities	25,099,011	12,615,285	5,432,212	(7,051,514)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	5,681,824
Investment Earnings	105,696
Miscellaneous	37,950
Total General Revenues	5,825,470
Change in Net Assets	(1,226,044)
Net Assets Beginning of Year - (See Note 3)	8,354,802
Net Assets End of Year	$7,128,758

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$4,712,559	$45,035	$2,559,879	$7,317,473
Interfund Receivables	682,920			682,920
Intergovernmental Receivables	1,602,229	182,681	46,786	1,831,696
Prepaid Items	16,859			16,859
Total Assets	$7,014,567	$227,716	$2,606,665	$9,848,948
Liabilities				
Accounts Payable	$43,504	$162,589	$147,262	$353,355
Accrued Wages and Benefits	1,547,337	13,521	27,407	1,588,265
Interfund Payables		182,681	158,712	341,393
Compensated Absences Payable	32,754	25,312	1,146	59,212
Intergovernmental Payables	224,804	203	4,032	229,039
Total Liabilities	1,848,399	384,306	338,559	2,571,264
Fund Balances				
Reserved for Encumbrances	166,520	182,738	258,580	607,838
Reserved for Prepaids	16,859			16,859
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	4,982,789			4,982,789
Special Revenue Funds		(339,328)	9,526	(329,802)
Capital Projects Funds			2,000,000	2,000,000
Total Fund Balances (Deficits)	5,166,168	(156,590)	2,268,106	7,277,684
Total Liabilities and Fund Balances	$7,014,567	$227,716	$2,606,665	$9,848,948

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2003

Total Governmental Funds Balances	$7,277,684
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	755,580
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(125,401)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(71,588)
Compensated absences are long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.	(707,517)
Net Assets of Governmental Activities	$7,128,758

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2003

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	$5,681,824	$2,763,201	$ 2,669,011	$11,114,036
Interest	105,696			105,696
Tuition and Fees	7,064,630			7,064,630
Extracurricular Activities			314	314
Customer Services	5,536,182			5,536,182
Miscellaneous	34,700		3,250	37,950
Total Revenues	18,423,032	2,763,201	2,672,575	23,858,808
Expenditures				
Current:				
Instruction:				
Special	7,676,268		61,260	7,737,528
Vocational			534,604	534,604
Adult/Continuing			1,000	1,000
Support Services:				
Pupil	659,902	3,359	128,787	792,048
Instructional Staff	8,332,782	634,985	673,551	9,641,318
Board of Education	76,113			76,113
Administration	1,033,507	2,235,067	990,383	4,258,957
Fiscal	377,867	69,680	74,907	522,454
Business	238,290			238,290
Operation and Maintenance of Plant	296,624	220,527	49,468	566,619
Pupil Transportation	20,674			20,674
Central	8,107			8,107
Operation of Non-Instructional Services			151,290	151,290
Total Expenditures	18,720,134	3,163,618	2,665,250	24,549,002
Excess of Revenues Over (Under) Expenditures	(297,102)	(400,417)	7,325	(690,194)
Other Financing Sources (Uses)				
Refund of prior years expenditures	24,210			24,210
Refund of prior years revenue			(49,868)	(49,868)
Transfers In			2,098,830	2,098,830
Transfers Out	(2,001,793)		(97,037)	(2,098,830)
Total Other Financing Sources (Uses)	(1,977,583)		1,951,925	(25,658)
Net Change in Fund Balances	(2,274,685)	(400,417)	1,959,250	(715,852)
Fund Balances Beginning of Year	7,440,853	243,827	308,856	7,993,536
Fund Balances (Deficits) End of Year	$5,166,168	$ (156,590)	$ 2,268,106	$ 7,277,684

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds		($715,852)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		44,827
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(392,697)
Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	25,132	
Pension Obligation	(25,943)	
Total		(811)
The internal service funds used by management to charge the the costs of insurance and workers' compensation to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		(161,511)
Change in Net Assets of Governmental Activities		($1,226,044)

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Intergovernmental	$ 6,500,000	$5,592,705	$5,681,824	$89,119
Interest	150,000	100,000	105,696	5,696
Tuition and Fees	3,111,000	7,540,136	6,678,668	(861,468)
Customer Services/Miscellaneous	5,604,500	4,985,699	6,778,692	1,792,993
Total Revenues	15,365,500	18,218,540	19,244,880	1,026,340
Expenditures				
Current:				
Instruction:				
Special	7,004,010	7,590,662	7,579,078	11,584
Support Services:				
Pupils	613,647	604,428	604,428	-
Instructional Staff	8,167,884	8,328,841	8,328,915	(74)
Board of Education	118,778	109,488	108,813	675
Administration	970,010	1,049,786	1,049,786	-
Fiscal	374,175	380,741	380,741	-
Business	205,560	262,986	265,086	(2,100)
Operation and Maintenance of Plant	550,312	387,510	387,510	-
Pupil Transportation	11,980	27,427	27,427	-
Central	14,605	13,329	13,329	-
Total Expenditures	18,030,961	18,755,198	18,745,113	10,085
Excess of Revenues Over (Under) Expenditures	(2,665,461)	(536,658)	499,767	1,036,425
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	50,000	50,000	24,210	(25,790)
Advances In	200,000	200,000	175,230	(24,770)
Advances Out	(181,000)	-	(631,260)	(631,260)
Transfers Out	(25,000)	(485,808)	(2,041,936)	(1,556,128)
Total Other Financing Sources (Uses)	44,000	(235,808)	(2,473,756)	(2,237,948)
Net Change in Fund Balance	(2,621,461)	(772,466)	(1,973,989)	(1,201,523)
Fund Balance Beginning of Year	6,368,609	6,368,609	6,368,609	-
Prior Year Encumbrances Appropriated	135,106	135,106	135,106	-
Fund Balance End of Year	$3,882,254	$5,731,249	$4,529,726	($1,201,523)

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
TITLE VI-B
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Intergovernmental	$3,351,996	$3,351,996	$2,580,518	($771,478)
Total Revenues	3,351,996	3,351,996	2,580,518	(771,478)
Expenditures				
Current:				
Support Services:				
Pupils	47,500	47,500	3,494	44,006
Instructional Staff	842,536	750,367	627,707	122,660
Administration	2,702,414	3,136,113	2,428,563	707,550
Fiscal	92,593	113,668	94,391	19,277
Operation and Maintenance of Plant	218,028	275,555	240,943	34,612
Total Expenditures	3,903,071	4,323,203	3,395,098	928,105
Excess of Revenues Over (Under) Expenditures	(551,075)	(971,207)	(814,580)	156,627
Other Financing Sources (Uses)				
Advances In	0	0	182,682	182,682
Net Change in Fund Balance	(551,075)	(971,207)	(631,898)	339,309
Fund Balance Beginning of Year	159,051	159,051	159,051	0
Prior Year Encumbrances Appropriated	229,424	229,424	229,424	0
Fund Balance End of Year	($162,600)	($582,732)	($243,423)	$339,309

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2003

	Internal Service Funds
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$502,759
Total Current Assets	502,759
Liabilities	
Current Liabilities:	
Accounts Payable	381
Claims Payable	627,779
Total Current Liabilities	628,160
Net Assets	
Unrestricted	(125,401)
Total Net Assets	($125,401)

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2003

	Internal Service Funds
Operating Revenues	
Services to Other Entities	$2,075,021
Total Operating Revenues	2,075,021
Operating Expenses	
Purchased Services	43,827
Insurance Expenses	2,192,705
Total Operating Expenses	2,236,532
Operating Income	(161,511)
Change in Net Assets	(161,511)
Net Assets Beginning of Year	36,110
Net Assets End of Year	($125,401)

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF CASH FLOWS,
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2003

	Internal Service Funds
Cash Flows from Operating Activities	
Cash Received for Insurance Services	$ 2,075,291
Cash Payments for Insurance Expenses	(1,649,681)
Net Cash Provided by Operating Activities	425,610
Net Increase in Cash & Cash Equivalents	425,610
Cash and Cash Equivalents at Beginning of Year	77,149
Cash and Cash Equivalents at End of Year	$ 502,759
Operating Loss	$ (161,511)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Net (Increase) in Assets:	
Accounts Receivable	270
Net Increase (Decrease) in Liabilities:	
Accounts Payable	(16,428)
Claims Payable	603,279
Net Adjustments	587,121
Net Cash Provided By Operating Activities	$ 425,610

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF FIDUCIARY NET ASSETS,
FIDUCIARY FUNDS
June 30, 2003

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	$632,860
Intergovernmental Receivables	298,423
Accounts Receivable	19,155
Investment in Fixed Assets	124,992
Total Assets	$1,075,430
Liabilities	
Accounts Payable	$605,133
Accrued wages	41,166
Interfund Payables	341,527
Compensated Absences Payable	75,173
Intergovernmental Payable	12,431
	$1,075,430
Total Liabilities	

See accompanying notes to the basic financial statements

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Franklin County Educational Service Center (the Center) provides services in the areas of special education classes, supervision, administration, fiscal and other needed services to the four local school districts in Franklin County and also has city/county agreements with nine city school districts. In addition, the Educational Service Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education projects, Ohio Coalition of Children with Disabilities, and the Catholic Diocese.

The Franklin County Education Service Center operates under a locally-elected five member Governing Board form of government and provides educational services as mandated by State or Federal agencies. The Governing Board controls the Educational Service Center's staff that provides services to over 86,200 students and other community members in Franklin County.

Reporting Entity

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Center is governed by a five member Governing Board elected by the citizens of Franklin County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves local school districts: Canal Winchester Local School District, Groveport Madison Local School District, Hamilton Local School District, Plain Local School District and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 189 certified and 236 non-certified personnel. The Franklin County commissioners, as required by State Statute, provide the offices for the use of the Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable. This report includes all activities considered by management to be part of the Center by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of a reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

1. DESCRIPTION OF EDUCATIONAL SERVICE CENTER (CONTINUED)

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Center's accounting policies are described below.

A. Basis of Presentation

The Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

<u>Government-wide Financial Statements</u>
The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities for the Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Center.

<u>Fund Financial Statements</u>
During the year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are also reported by type.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Fund Accounting

The Center uses funds 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 government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period. The following are the Center's major governmental funds:

General Fund - This fund 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 Center for any purpose provided it is expended or transferred according to the bylaws of the Center and the laws of the State of Ohio.

Title VI-B - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Types

Proprietary funds are used to account for the Center's ongoing activities which are similar to those found in the private sector. The following are the proprietary fund types:

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the Center on a cost reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus/Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of the current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service fund is charges for services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Measurable means the amount of the transaction can be determined and available means collectible within the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Center reports deferred revenues on its combined balance sheet that arise when revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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 proprietary fund type utilizes the accrual basis of accounting for reporting purposes. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

SF-5

Annually, the Superintendent and the Treasurer submit to the Governing Board a proposed County Educational Service Center SF-5 budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the sources of financing for all funds. After approval by the Board, the SF-5 budget is submitted to the Ohio Department of Education no later than September 8.

Appropriations

An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the 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 funds.

E. Cash and Investments

Cash received by the Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as Equity in Pooled Cash and Cash Equivalents. During the fiscal year all investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), bankers acceptances, federal agency securities, and repurchase agreements.

Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. 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 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 amortized 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.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. All investment earnings accrue to the General Fund. Interest income earned in fiscal year 2003 totaled $105,696.

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

F. Taxes

A county educational service center, itself, does not levy taxes. However, a county educational service center governing board may serve as the taxing authority for a county school financing center as authorized by the Ohio Revised Code 135.01 (D). The Center does not currently serve as a taxing authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

H. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of $500. The Center does not possess any infrastructure. Improvements are capitalized; 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. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over an estimated useful life of the assets:

Description	Estimated Lives
Improvements	15 - 30 years
Furniture and Equipment	5 - 20 years
Vehicles	5 - 15 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables. These amounts are eliminated in the governmental activities column on the statement of net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2003 the Center had no long-term interfund loans.

L. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments.

All employees with eight or more years of service were included in the calculation of the long-term compensated absences accrual amount. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the governmental fund financial statements when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

N. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activities between governmental funds are eliminated for reporting in the statement of activities.

O. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a 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 have been established for encumbrances and prepayments.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their uses either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Q. Accounts Payable

The fair value and carrying value of trade accounts payable are approximately the same.

R. 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.

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES/NET ASSETS

For fiscal year 2003, the Center has implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, GASB Statement No. 41, Budgetary Comparison Schedules - Perspective Differences, and GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB Statement No. 34 creates new basic financial statements for reporting on the Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements split the Center's programs between governmental and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund, reclassification of funds based on the guidance provided in GASB Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when the significant budgetary perspective differences result in the government not being able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the Center for fiscal year 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Restatement of Fund Balance **The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the Center. The transition from governmental fund balance to net assets of the governmental activities is also presented.**

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES/NET ASSETS - CONTINUED

	General	Title VI-B	Nonmajor	Total
Fund Balances, June 30, 2002	$7,440,853	$243,827	$308,856	$7,993,536
GASB 34 Adjustments:				
Capital Assets				1,103,450
Internal Service Fund				36,110
Compensated Absences				(732,649)
Intergovernmental Payable				(45,645)
Governmental Activities Net Assets, June 30, 2002, restated				$8,354,802

4. BUDGETARY BASIS OF ACCOUNTING

While the 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 as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund and the Title VI-B major special revenue fund are 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.

4. BUDGETARY BASIS OF ACCOUNTING - CONTINUED

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis for the general fund and major special revenue fund.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types

	General Fund	Title VI-B
GAAP Basis	$(2,274,685)	$(400,417)
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	779,080	0
Due to Expenditures:		
Net Adjustments to Expenditure Accruals	(253,300)	(519,937)
Due to Other Sources/Uses	(456,030)	0
Adjustment for Encumbrances	230,946	288,457
Budget Basis	$(1,973,989)	$(631,897)

5. CASH AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Governing Board has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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;

5. CASH AND INVESTMENTS – CONTINUED

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 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 from the date of purchase in an amount not to exceed twenty-five percent of the interim monies 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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year end, the Center had $750 in cash on hand which is included on the balance sheet of the Center as part of equity in pooled cash and cash equivalents.

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

Deposits: At fiscal year end, the carrying amount of the Center's deposits was $6,886,906 and the bank balance was $7,157,511. Of the balance, $300,000 was covered by Federal Depository Insurance; and $6,857,511 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

5. CASH AND INVESTMENTS - CONTINUED

Investments: The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the Center's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Reported Amount	Fair Value
Repurchase Agreement	$ 580,387	$ 580,387	$ 580,387
Bankers Acceptance	223,167	223,167	223,167
Federal National Mortgage Association	499,750	499,750	499,750
STAR Ohio		262,132	262,132
Total Investments		$ 1,565,436	$ 1,565,436

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 classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 8,453,092	$ 0
Investments:		
Repurchase Agreement	(580,387)	580,387
Federal National Mortgage Association	(499,750)	499,750
Bankers Acceptance	(223,167)	223,167
STAR Ohio	(262,132)	262,132
Petty Cash	(750)	
GASB Statement No. 3	$ 6,886,906	$ 1,565,436

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 6/30/2002	Additions	Reductions	Balance at 6/30/2003
Governmental Activities				
Furniture and Equipment	$2,075,713	$161,783	$(1,069,859)	$1,167,637
Vehicles	178,479	0	0	178,479
Totals at Historical Cost	2,254,192	161,783	(1,069,859)	1,346,116
Less Accumulated Depreciation:				
Furniture and Equipment	(1,072,499)	(102,565)	677,162	(497,902)
Vehicles	(78,243)	(14,391)	0	(92,634)
Total Accumulated Depreciation	(1,150,742)	(116,956)	677,162	(590,536)
Governmental Activities Capital Assets, Net	$1,103,450	$44,827	$(392,697)	$755,580

The following is a summary of changes in the Agency Funds during the fiscal year 2003:

	Agency Fund Fixed Assets June 30, 2002	Additions	Deletions	Agency Fund Fixed Assets June 30, 2003
Furniture and Equipment	$240,418	$34,640	$(150,066)	$124,992

6. CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 900
Special	8,319
Vocational	1,458
Support Services:	
Pupil	2,335
Instructional Staff	8,043
Administration	72,772
Fiscal	4,513
Business	862
Plant Services	3,363
Pupil Transportation	14,391
Total Depreciation Expense	**$116,956**

7. RECEIVABLES

Receivables at June 30, 2003 consisted of internal loans, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs. A summary of the principal items of receivables reported on the statement of net assets follows:

<u>Governmental Activities:</u>	
Intergovernmental	$1,831,696
Interfund	341,527
Total	$2,173,223

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 43215-3736.

8. DEFINED BENEFIT PENSION PLANS - CONTINUED

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $1,066,937, $939,747 and $853,755 respectively; 95.93 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. $80,005 representing the unpaid surcharge for fiscal year 2003 is recorded as a liability.

B. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combination 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 and actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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. Contributions 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.

8. DEFINED BENEFIT PENSION PLANS - CONTINUED

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were $1,174,417, $1,186,976 and $1,046,985, respectively; 100 percent has been contributed for fiscal years 2003, 2002 and 2001.

9. POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated 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 funded 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 cost 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. Effective July 1, 2002, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2003. For the Center, this amount equaled $83,887 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 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, an increase of .27 percent for fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at $14,500. For the Center, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled $730,836.

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, 2003, were $204,930,737 and the target level was $307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of $303.6 million. SERS has approximately 50,000 participants receiving health care benefits.

10. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and State laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-9	10
10-19	15
20-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days.

11. RISK MANAGEMENT

General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

<u>General Liability:</u>

General liability insurance is maintained in the amount of $1,000,000 for each occurrence and $3,000,000 in the aggregate. Fleet insurance is maintained in the amount of $1,000,000 for each occurrence.

The Center maintains replacement cost insurance on building contents in the amount of $2,290,000 with supplemental coverage for computers and classroom equipment in the amount of $250,000. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

Workers' Compensation Liability-Public Entity Risk Pool:

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

11. RISK MANAGEMENT - CONTINUED

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all school Centers 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 and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Health and Dental Insurance:

The Center has established a self-insurance fund for health insurance in September, 2002. The Center has had a self-insurance dental fund for several years. These funds have been combined and administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the General Fund, Special Revenue Funds, and other Agency Funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Cancelled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

A summary of changes in self-insurance claims:

	June 30, 2003	June 30, 2002
Claim Liabilities at beginning of year	$24,500	$21,500
Incurred Claims	2,681,408	257,033
Claims Paid	(2,078,129)	(254,033)
Claim Liabilities at end of year	$627,779	$24,500

12. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Due Within One Year
Compensated Absences Payable	$ 794,940	$0	$ 28,211	$ 766,729	$ 8,520

13. INTERFUND TRANSACTIONS

At June 30, 2003, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	Receivables	Payables
General Fund	$682,920	$ 0
Special Revenue Funds	0	341,393
Agency Funds	0	341,527
	$682,920	$682,920

14. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County school districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the governing board. MEC is it's own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center and is a part of the Ohio Department of Education. The Center selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

15. CONTINGENCIES

A. Grants

The 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 Center at June 30, 2003.

B. Litigation

The Center was a party to legal proceedings seeking damages and\or injunctive relief as of June 30, 2003. However, the matter has been dismissed as of the date of this report.

16. STATE FUNDING

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

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

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

17. SCHOOL FUNDING DECISION

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

18. INTERNAL SERVICE FUND

The Internal Service Fund is the Center's Self-Insurance fund to account for employee medical benefits provided to other center funds on a cost reimbursement basis. At June 30, 2003, the fund had an accumulated deficit of $125,401. The deficit is a result of the accrual claims incurred in 2003 but not paid until 2004. The Center is reviewing the operation of the fund to determine an appropriate course of action to alleviate the deficit.

19. PERMANENT IMPROVEMENTS

During fiscal 2003, the Board identified the need for certain permanent improvements for the Center. The Board passed a resolution to set up a permanent improvements fund in the amount of $2,000,000. The money was transferred from General Fund to the Permanent Improvement Fund.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Grant Title	Pass Through Entity Number	CFDA Number	Receipts	Expenditures
U.S. Department of Education/ Ohio Department of Education				
SPECIAL EDUCATION CLUSTER:				
Special Education: Grants to States	6BPT-2003-P		172,730	341,537
	6BSI-2002-P		224,242	449,086
	6BSV-2002-P		230,388	394,440
	6BSI-2003-P		1,462,683	1,479,679
	6BSV-2003-P		598,366	764,052
	6BII-2003-P		25,045	16,080
	6BAA-2003-P		9,375	-
	6BSX-2002-P		433,383	438,914
	6BEC-2003-P		15,000	3,304
	6BSA-2003-P		15,000	-
TOTAL CFDA #84.027		84.027	3,186,212	3,887,092
Special Education: Preschool Grants	PGS4-2002		135,641	84,484
	PGS2-2003		105,000	174,377
	PGS2-2002		52,953	85,696
	PGS3-2002-P		2,768	13,632
	PGS7-2002-P		-	4,147
	PGS1-2002-P		38,818	-
	PGS1-2003-P		74,227	74,227
TOTAL CFDA #84.173		84.173	409,407	436,563
TOTAL SPECIAL EDUCATION CLUSTER			3,595,619	4,323,655
Even Start: State Educational Agencies	PGS2-2002	84.213	22,464	70
Goals 2000-State and Local Education Systematic Improvement Grants	G2A2-2001		4,000	-
	G2SP-2001		3,073	-
TOTAL CFDA #84.276		84.276	7,073	-
Eisenhower Professional Development State Grants	MSS2-2002		57,840	63,972
	MSS2-2001		102,915	102,915
TOTAL CFDA #84.281		84.281	160,755	166,887
School Renovation Grants	ATSI-2002	84.352A	10,000	15,000
English Language Acquistion Grants	T3S1-2003	84.365	6,107	5,886
Improving Teacher Quality State Grant	TRSA-2003	84.367	22,388	-

See accompanying notes to the schedule

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES - CONTINUED
For the Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Grant Title	Pass Through Entity Number	CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
Special Education Research and Innovation to Improve Services and Results for Children with Disabilities/Directed Model Demonstration		84.324T	265,472	257,072
Goals 2000 - State and Local Education Systematic Improvement Grants		84.276	16,667	23,081
U.S. DEPARTMENT OF LABOR *Passed through Ohio Department of Education*				
WIA Adult Program	WFJ2-2003	17.258	189,401	189,401
TOTAL FEDERAL EXPENDITURES AND RECEIPTS			$ 4,295,946	$ 4,981,052

See accompanying notes to the schedule

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2003

1. SIGNIFICANT ACCOUNTING PRINCIPLES

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

2. OTHER FEDERAL ASSISTANCE

The Educational Service Center serves as the fiscal agent for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education Project, Ohio Coalition of Children with Disabilities and the Catholic Diocese.

The Educational Service Center receives and disburses federal funds on behalf of the agencies.

These funds have been appropriately excluded from the accompanying schedule, except if the activity was included on the Ohio Department of Education report under the Center's name.

Jones, Cochenour & Co.
Certified Public Accountants

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

Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

We have audited the financial statements of Franklin County Educational Service Center, Franklin County, Ohio (the Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated June 25, 2004, wherein we noted the Service Center adopted Governmental Accounting Standards Board (GASB) Statement No. 34, No. 37, No. 38, No. 41 and GASB Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing.* We noted one matter involving compliance that we have reported to management of the Service Center in a separate letter dated June 25, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 to 2003-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions described above as 2003-001 to 2003-003 to be material weaknesses. We noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated June 25, 2004.

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

Jones, Cochenour & Co.

Jones, Cochenour & Co.
June 25, 2004

Jones, Cochenour & Co.
Certified Public Accountants

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

To the Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

Compliance

We have audited the compliance of the Franklin County Educational Service Center, Franklin County, Ohio (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

Jones, Cochenour & Co.

Jones, Cochenour & Co.
June 25, 2004

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Findings
OMB Circular A-133 § .505
June 30, 2003

1. SUMMARY OF AUDITORS' RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510	No
(d)(1)(vii)	Major Programs (list):	<u>Special Education Cluster</u>: Special Education Grants to States CFDA #84.027 Special Education Preschool Grants CFDA #84.173 Eisenhower Professional Development State Grants CFDA #84.281 Special Education Research and Innovation to Improve Services and Results for Children with Disabilities/ Directed Model Demonstration CFDA #84.324T
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >$300,000 Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

Schedule of Findings
OMB Circular A-133 § .505
June 30, 2003

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

FINDING NUMBER 2003-001

REPORTABLE CONDITION/MATERIAL WEAKNESS

During the past year the Center did not balance when bank-to-book reconciliations were performed. The preparation of monthly bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements. Failure to balance when performing bank-to-book reconciliations could result in incorrect fund balances being reported and also result in errors or irregularities without proper detection. It is also noted that $42,768 of the cash was incorrectly reported in the general fund that should have been reported in the self-insurance proprietary fund. A reclassification entry was made to correct this on the financial statements.

Subsequent to the year end an unclaimed funds account was approved by the board of directors for the unfound difference at June 30, 2003. An unclaimed funds account is not the proper procedure for handling cash reconciliation differences.

Monthly bank reconciliations should be prepared and reconciled with a cash report for each cash account in order to find any discrepancies. When discrepancies are noted the Center should determine the source of the discrepancy and make any needed corrections or notations. The Board of Directors should be properly notified of the difference and approve the resolution of the differences. We strongly recommend that reconciliations be prepared and agreed to the general ledger balance on a timely basis.

FINDING NUMBER 2003-002

REPORTABLE CONDITION/MATERIAL WEAKNESS

The unaudited financial statement provided to the auditors required significant journal entries to have a complete and accurate audited financial statement. We also noted that detailed schedules supporting the financial statements did not always agree. The original cash to GAAP worksheet included two years of activity in the cash column which made it very difficult to tie to the 4502. These issues contributed to extensive additional time to complete the audit. The following are some of the significant accounts that were reconstructed:

<u>Claims payable</u>
The claims payable was understated by $361,810. The Center receives the lag report from Polaris, the Third Party Administrator (TPA). The lag report was not interpreted correctly for the unaudited financial statements, and resulted in an understatement to the claims payable account in the Proprietary fund.

<u>Accounts receivable</u>
There was a double booking of accounts receivable in the amount of $1,187,110. There was a report noted as receipt transactions to be accrued and an internal excel report with the same transactions, both were booked in the unaudited financial statements. Accounts receivable were overstated on the unaudited financial statements.

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

Due to and due from other governments
We determined that the accounting system for the Center reverses out the prior year encumbrances that were already paid into the current year's fiduciary fund of the 4502, and shows up as a liability or receivable in the combined balance sheet. This statement was set up to facilitate the GAAP consultant's balance sheet entries. As a result, an entry of $173,971 was made to correct the balances as well as a net reclassification entry of $551,156 to accounts payable.

We recommend in the future that a complete and accurate unaudited financial statement be prepared for the auditors. We also recommend that GASB 34 training be incurred by the Centers' accounting department. With adequate training, the accounting staff will become more familiar with the new financial statement format and procedures and will ensure they are able to efficiently prepare and understand the necessary year end documents. This will also lead to more efficient, effective and communicative relationships with regard to accounting and financial matters.

FINDING NUMBER 2003-003

REPORTABLE CONDITION/MATERIAL WEAKNESS

During our audit it was noted that over $1,000,000 of equipment or about 48% of the total was disposed of during the year without reference of this disposition in the minutes of the Board of Directors. The disposition was approved by the Ohio Department of Education; however, these assets were recorded on the Center's financial statements and the board should be informed and approve the write-offs.

In the future, the board should be informed and approve of all significant disposals of property and equipment.

3. FINDINGS FOR FEDERAL AWARDS

None.

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FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

FRANKLIN 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
OCTOBER 5, 2004