



Auditor of State
Betty Montgomery

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

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

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2003, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the Educational Service Center, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 20, 2003

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MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
ASSETS:			
Equity in pooled cash and cash equivalents	\$ 7,934,093	\$ 269,398	\$ 2,367
Receivables (net of allowances of uncollectibles):			
Accounts	2,186	5,525	-
Accrued interest	12,268	-	-
Interfund loan receivable	121,991	-	-
Due from other governments	1,397,706	29,636	-
Materials and supplies inventory	10,019	-	-
Prepayments	25,173	767	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-
OTHER DEBITS:			
Amount to be provided for retirement of general long-term obligations	-	-	-
Total assets and other debits	<u>\$ 9,503,436</u>	<u>\$ 305,326</u>	<u>\$ 2,367</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES:			
Accounts payable	\$ 2,905	\$ 2,586	\$ -
Accrued wages and benefits	727,880	14,381	-
Compensated absences payable	10,799	174	-
Pension obligation payable	82,558	1,466	-
Interfund loan payable	-	23,280	-
Deferred revenue	594,231	15,580	-
Due to other governments	55,292	2,573	-
Claims payable	-	-	-
Obligation under capital lease	-	-	-
Total liabilities	<u>1,473,665</u>	<u>60,040</u>	<u>-</u>
EQUITY AND OTHER CREDITS:			
Investment in general fixed assets	-	-	-
Accumulated deficit: unreserved	-	-	-
Fund balances:			
Reserved for encumbrances	67,288	188,578	-
Reserved for materials and supplies inventory	10,019	-	-
Reserved for prepayments	25,173	767	-
Unreserved-undesignated	<u>7,927,291</u>	<u>55,941</u>	<u>2,367</u>
Total equity and other credits	<u>8,029,771</u>	<u>245,286</u>	<u>2,367</u>
Total liabilities, equity and other credits	<u>\$ 9,503,436</u>	<u>\$ 305,326</u>	<u>\$ 2,367</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
\$ 29,137	\$ 164,044	\$ -	\$ -	\$ 8,399,039
81,336	-	-	-	89,047
-	-	-	-	12,268
-	-	-	-	121,991
-	-	-	-	1,427,342
-	-	-	-	10,019
-	-	-	-	25,940
-	-	1,103,754	-	1,103,754
-	-	-	653,336	653,336
<u>\$ 110,473</u>	<u>\$ 164,044</u>	<u>\$ 1,103,754</u>	<u>\$ 653,336</u>	<u>\$ 11,842,736</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,491
5,803	-	-	-	748,064
4,516	-	-	286,084	301,573
797	-	-	43,957	128,778
36,434	62,277	-	-	121,991
36,306	-	-	-	646,117
101,361	100,655	-	-	259,881
114,751	-	-	-	114,751
-	-	-	323,295	323,295
<u>299,968</u>	<u>162,932</u>	<u>-</u>	<u>653,336</u>	<u>2,649,941</u>
-	-	1,103,754	-	1,103,754
(189,495)	-	-	-	(189,495)
-	-	-	-	255,866
-	-	-	-	10,019
-	-	-	-	25,940
-	1,112	-	-	7,986,711
<u>(189,495)</u>	<u>1,112</u>	<u>1,103,754</u>	<u>-</u>	<u>9,192,795</u>
<u>\$ 110,473</u>	<u>\$ 164,044</u>	<u>\$ 1,103,754</u>	<u>\$ 653,336</u>	<u>\$ 11,842,736</u>

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

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
From local sources:					
Tuition	\$ 87,782	\$ 150	\$ -	\$ -	\$ 87,932
Contract services	7,040,160	-	-	-	7,040,160
Earnings on investments	154,228	-	-	-	154,228
Other local revenues	61,272	22,299	-	-	83,571
Other revenue	130	103,523	-	-	103,653
Intergovernmental - state	3,459,507	1,142,983	3,250	-	4,605,740
Intergovernmental - federal	476,834	434,658	-	-	911,492
Total revenues	11,279,913	1,703,613	3,250	-	12,986,776
Expenditures:					
Current:					
Instruction:					
Regular	-	2,035	30	-	2,065
Special	2,925,024	28,232	-	-	2,953,256
Vocational	-	48,761	-	-	48,761
Other	-	58,421	-	-	58,421
Support services:					
Pupil	2,377,210	422,702	-	-	2,799,912
Instructional staff	3,781,229	1,123,938	10,775	405	4,916,347
Board of Education	39,574	-	-	-	39,574
Administration	788,368	38,704	-	-	827,072
Fiscal	289,234	76,280	-	-	365,514
Business	240,719	-	-	-	240,719
Operations and maintenance	17,572	-	-	-	17,572
Pupil transportation	-	16,706	-	-	16,706
Central	206,581	-	-	-	206,581
Community services	5,152	11,573	-	7,414	24,139
Capital outlay	24,700	-	-	-	24,700
Debt service:					
Principal retirement	88,362	-	-	-	88,362
Interest and fiscal charges	45,089	-	-	-	45,089
Total expenditures	10,828,814	1,827,352	10,805	7,819	12,674,790
Excess (deficiency) of revenues over (under) expenditures	451,099	(123,739)	(7,555)	(7,819)	311,986
Other financing sources:					
Inception of capital lease transactions	29,700	-	-	-	29,700
Total other financing sources	29,700	-	-	-	29,700
Excess (deficiency) of revenues and other financing sources over (under) expenditures	480,799	(123,739)	(7,555)	(7,819)	341,686
Fund balances, July 1	7,550,753	369,025	9,922	8,931	7,938,631
Decrease in reserve for inventory	(1,781)	-	-	-	(1,781)
Fund balances, June 30	\$ 8,029,771	\$ 245,286	\$ 2,367	\$ 1,112	\$ 8,278,536

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition	\$ 50,164	\$ 56,919	\$ 6,755	\$ 150	\$ 150	\$ -
Contract services	5,426,875	7,154,753	1,727,878	-	-	-
Earnings on investments	200,000	163,386	(36,614)	-	-	-
Other local revenues	33,142	49,001	15,859	16,714	13,263	(3,451)
Other revenue	500	500	-	55,500	55,500	-
Intergovernmental - State	3,342,195	3,721,683	379,488	1,139,983	1,142,983	3,000
Intergovernmental - Federal	413,000	476,834	63,834	503,828	464,278	(39,550)
Total revenues	<u>9,465,876</u>	<u>11,623,076</u>	<u>2,157,200</u>	<u>1,716,175</u>	<u>1,676,174</u>	<u>(40,001)</u>
Expenditures:						
Current:						
Instruction:						
Regular	-	-	-	2,036	2,036	-
Special	3,491,772	2,839,220	652,552	32,476	28,223	4,253
Vocational	-	-	-	48,761	48,761	-
Other	-	-	-	63,452	58,510	4,942
Support services:						
Pupil	2,656,338	2,367,469	288,869	462,753	442,803	19,950
Instructional staff	4,439,530	3,714,583	724,947	1,342,144	1,296,618	45,526
Board of Education	74,645	50,794	23,851	-	-	-
Administration	852,472	784,614	67,858	54,733	38,537	16,196
Fiscal	349,580	295,283	54,297	76,280	76,280	-
Business	487,133	364,244	122,889	-	-	-
Operations and maintenance	42,259	25,223	17,036	-	-	-
Pupil transportation	-	-	-	20,791	16,706	4,085
Central	236,144	224,216	11,928	-	-	-
Community services	15,400	5,152	10,248	11,573	11,573	-
Total expenditures	<u>12,645,273</u>	<u>10,670,798</u>	<u>1,974,475</u>	<u>2,114,999</u>	<u>2,020,047</u>	<u>94,952</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,179,397)</u>	<u>952,278</u>	<u>4,131,675</u>	<u>(398,824)</u>	<u>(343,873)</u>	<u>54,951</u>
Other financing sources (uses):						
Advances in	159,500	160,727	1,227	-	23,280	23,280
Advances out	(123,219)	(123,219)	-	(80,500)	(80,500)	-
Pass-through	(3,719,362)	-	3,719,362	-	-	-
Refund of prior year expenditure	-	10,429	10,429	-	-	-
Total other financing sources (uses)	<u>(3,683,081)</u>	<u>47,937</u>	<u>3,731,018</u>	<u>(80,500)</u>	<u>(57,220)</u>	<u>23,280</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(6,862,478)</u>	<u>1,000,215</u>	<u>7,862,693</u>	<u>(479,324)</u>	<u>(401,093)</u>	<u>78,231</u>
Fund balances, July 1	6,840,858	6,840,858	-	407,475	407,475	-
Prior year encumbrances appropriated	21,620	21,620	-	71,849	71,849	-
Fund balances, June 30	<u>\$ -</u>	<u>\$ 7,862,693</u>	<u>\$ 7,862,693</u>	<u>\$ -</u>	<u>\$ 78,231</u>	<u>\$ 78,231</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 50,314	\$ 57,069	\$ 6,755
-	-	-	5,426,875	7,154,753	1,727,878
-	-	-	200,000	163,386	(36,614)
-	-	-	49,856	62,264	12,408
-	-	-	56,000	56,000	-
3,250	3,250	-	4,485,428	4,867,916	382,488
-	-	-	916,828	941,112	24,284
<u>3,250</u>	<u>3,250</u>	<u>-</u>	<u>11,185,301</u>	<u>13,302,500</u>	<u>2,117,199</u>
30	30	-	2,066	2,066	-
-	-	-	3,524,248	2,867,443	656,805
-	-	-	48,761	48,761	-
-	-	-	63,452	58,510	4,942
-	-	-	3,119,091	2,810,272	308,819
13,142	10,775	2,367	5,794,816	5,021,976	772,840
-	-	-	74,645	50,794	23,851
-	-	-	907,205	823,151	84,054
-	-	-	425,860	371,563	54,297
-	-	-	487,133	364,244	122,889
-	-	-	42,259	25,223	17,036
-	-	-	20,791	16,706	4,085
-	-	-	236,144	224,216	11,928
-	-	-	26,973	16,725	10,248
<u>13,172</u>	<u>10,805</u>	<u>2,367</u>	<u>14,773,444</u>	<u>12,701,650</u>	<u>2,071,794</u>
<u>(9,922)</u>	<u>(7,555)</u>	<u>2,367</u>	<u>(3,588,143)</u>	<u>600,850</u>	<u>4,188,993</u>
-	-	-	159,500	184,007	24,507
-	-	-	(203,719)	(203,719)	-
-	-	-	(3,719,362)	-	3,719,362
-	-	-	-	10,429	10,429
-	-	-	(3,763,581)	(9,283)	3,754,298
(9,922)	(7,555)	2,367	(7,351,724)	591,567	7,943,291
6,162	6,162	-	7,254,495	7,254,495	-
<u>3,760</u>	<u>3,760</u>	<u>-</u>	<u>97,229</u>	<u>97,229</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 2,367</u>	<u>\$ 2,367</u>	<u>\$ -</u>	<u>\$ 7,943,291</u>	<u>\$ 7,943,291</u>

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Proprietary Fund Type</u>
	<u>Internal Service</u>
Operating revenues:	
Tuition and fees	\$ 12,087
Sales/charges for services.	915,021
Other	<u>32,635</u>
 Total operating revenues	 <u>959,743</u>
 Operating expenses:	
Personal services	100,805
Contract services	231,452
Materials and supplies	1,659
Other	600
Claims expense	<u>691,586</u>
 Total operating expenses	 <u>1,026,102</u>
 Operating loss	 <u>(66,359)</u>
 Nonoperating revenues:	
Operating grants	6,375
Interest revenue.	<u>251</u>
 Total nonoperating revenues	 <u>6,626</u>
 Net loss	 (59,733)
 Accumulated deficit, July 1	 <u>(129,762)</u>
 Accumulated deficit, June 30	 <u>\$ (189,495)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Proprietary Fund Type
	Internal Service
Cash flows from operating activities:	
Cash received from tuition and fees	\$ 48,681
Cash received from sales/service charges	893,742
Cash received from other operations	36,856
Cash payments for personal services	(113,746)
Cash payments for contract services.	(190,744)
Cash payments for materials and supplies.	(1,659)
Cash payments for other expenses.	(600)
Cash payments for claims expenses	(775,372)
Net cash used in operating activities.	(102,842)
Cash flows from noncapital financing activities:	
Cash received from interfund loans.	36,434
Cash received from grants and subsidies	6,375
Net cash provided by noncapital financing activities	42,809
Cash flows from investing activities:	
Interest received	251
Net cash provided by investing activities.	251
Net decrease in cash and cash equivalents	(59,782)
Cash and cash equivalents at beginning of year	88,919
Cash and cash equivalents at end of year.	\$ 29,137
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (66,359)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable.	(81,336)
Decrease in due from other governments.	4,509
Decrease in accrued wages and benefits	(11,357)
Increase in compensated absences payable.	521
Decrease in pension obligation payable	(2,332)
Decrease in claims payable	(83,786)
Increase in due to other governments	100,992
Increase in deferred revenue	36,306
Net cash used in operating activities	\$ (102,842)

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996.

County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county boards of education. That legislation also changed the "Board of Education" to the "Governing Board".

The ESC is located at 1495 W. Longview Ave., Suite 202, Mansfield, in offices provided by the Richland County Commissioners, as provided by Ohio Revised Code 3319.19. The Governing Board consists of seven members, five of which are elected by the voters of Richland County, and one each from Crawford and Morrow County. This Governing Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 163 non-certificated employees and 149 certificated (including administrative) employees to provide services to approximately 32,643 students throughout Crawford, Morrow, and Richland counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. The Reporting Entity

The ESC's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this includes general operations and student related activities. Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes for the organization. The financial statements of the reporting entity include only those of the ESC (the primary government). The ESC has no component units. The following organizations are described due to their relationship to the ESC.

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the "COG")

The COG is a jointly governed organization among 16 school districts and 1 educational service center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have any equity interest in the COG. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Business Advisory Councils of Crawford, Morrow, and Richland Counties

The ESC shall appoint Business Advisory Councils (the "Councils") in accordance with Ohio Revised Code, Section 3313.174. The purpose of the Councils shall be to provide insight, generate suggestions, and promote a positive relationship between the ESC and the communities it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within the ESC's financial means, in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Councils shall be composed of an optional number of members as determined by the ESC Superintendent. The membership may be selected from the fields of commercial, industrial, service, agricultural and governmental agencies. Consideration may also be given to one citizen representative from each of the local districts. Each local superintendent may also serve as an "ex officio" member. The ESC Superintendent, or his designee, shall serve as the chairman of the Councils.

The Superintendent of the ESC shall develop administrative guidelines which will ensure that the time and efforts of the Councils and those of the professional staff are utilized properly to accomplish these educational outcomes and to provide for a continued, strong working relationship between the school community, the Councils, and the larger community of employers.

The ESC has no ongoing financial interest or financial responsibility to the Councils.

Pioneer Career and Technology Center

The Pioneer Career and Technology Center, a Vocational School District, is a distinct political subdivision of the State of Ohio, operated under the direction of an eleven member Board of Education, which consists of one representative from each of the participating school district's elected board. Pioneer possesses its own budgeting and taxing authority. Financial information is available from the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Center.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Tri Rivers Joint Vocational School

The Tri Rivers Joint Vocational School (the "JVS") is a district political subdivision of the State of Ohio. The JVS is operated under the direction of a Board of Education, which consists of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The JVS possesses its own budgeting and taxing authority. Financial information is available from the Tri Rivers Joint Vocational School, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the JVS.

POTENTIAL COMPONENT UNITS REPORTED AS AGENCY FUNDS

Crawford County Family and Children First Council
North Central Regional Professional Development Center
Mid-Ohio Early Intervention Collaborative Group
School Study Council of Ohio
Richland County Solid Waste Authority
Richland Alternative School
Satellite V Media Center

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. See Note 10 for further information pertaining to this insurance purchasing pool.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through Governmental Funds. The following are the ESC's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the ESC for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - The Capital Projects Funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by Proprietary Funds).

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

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

Internal Service Funds - The Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the ESC, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported on a cash basis, with note disclosure regarding items which, in other fund types, would be subject to accrual.

ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the ESC.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus/Basis of Accounting

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

The Proprietary Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of this fund is included on the balance sheet. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for all Governmental and Expendable Trust Funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest, tuition, grants and entitlements (to the extent eligibility requirements have been met by year-end), and fees.

The ESC reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the ESC before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements, and donations. On the modified accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental Funds.

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

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

D. Budgets

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

The ESC 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 served by the ESC, 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 \$14.34 for local school districts and \$6.50 for city school districts. 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 ESC by \$40.52. This amount is provided from State Resources.

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

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC 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 ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2003.

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated Governmental Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. Note 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds, including the Proprietary Fund, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Although the ESC is fiscal agent for several entities which are not part of the reporting entity as described in Note 2.A, the ESC does not operate an external investment pool, because interest revenue is not allocated to these Agency Funds.

During 2003, investments were limited to State Treasury Asset Reserve (STAR Ohio), repurchase agreements, certificates of deposit, and federal agency securities.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earnings are assigned to the General Fund except for those required to be assigned to another fund. Interest revenue credited to the General Fund during fiscal 2003 amounted to \$154,228, which includes \$11,429 assigned from other ESC funds.

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

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

F. Inventory

Inventories for all Governmental Funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

G. Prepayments

Prepayments for Governmental Funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayments are not available to finance future Governmental Fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than three years. 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. No depreciation is recognized for assets in the General Fixed Assets Account Group. The ESC has not included infrastructure in the General Fixed Assets Account Group.

The ESC has no Proprietary Fund fixed assets.

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Accumulated vacation and severance liabilities of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental Fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group.

J. Long-Term Obligations

In general, Governmental Fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from Governmental Funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Capital leases are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by the Proprietary Fund are reported as liabilities in the appropriate Proprietary Fund.

K. Fund Equity

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

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency Funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC's interfund transactions for fiscal year 2003 is presented in Note 5.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Estimates

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

N. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Agency Funds

The following represent accruals for the agency funds, which, in another fund type, would be recognized on the combined balance sheet:

Assets

Due from other governments	\$70,721
Prepayments	121

Liabilities

Pension Obligation Payable	1,527
Accounts payable	97

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(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance/Retained Earnings

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Alternative Education Challenge Grant	\$ 12,228
VECM	5,882
Miscellaneous Federal Grants	9,422
EHA Preschool Grants for the handicapped	1,799
<u>Internal Service Funds</u>	
Employee Benefits Self-Insurance	165,265
Internal Services Rotary Fund	24,230

These deficits, caused by the application of GAAP, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General Fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur. These funds complied with state statute which does not allow for a negative cash balance at year-end.

C. Capital Lease/Fixed Asset Restatement

The June 30, 2002 Capital Lease Obligation and Fixed Assets have been restated to properly reflect all capital leases outstanding and a reappraisal of fixed assets as of June 30, 2002. The capital leases have been decreased by \$11,162 from \$393,119 to \$381,957 and the fixed assets have been decreased by \$23,804 from \$1,063,067 to \$1,039,263. See notes 7 and 9 for restatements.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the ESC 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 ESC 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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);

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(CONTINUED)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, 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 in Segregated Accounts: At June 30, 2003, the District had a negative cash balance with the Ohio Mid-Eastern Regional Education Service Agency of \$(131,850). This amount has been reflected as a liability on the balance sheet as "Due To Other Governments" in the amount of \$100,765 and as "Interfund Loan Payable" in the amount of \$31,085.

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

Deposits: At year-end the carrying amount of the ESC's deposits was \$1,656,693 and the bank balance was \$1,387,778 (both amounts include \$1,380,460 in nonnegotiable certificates of deposit). Of the bank balance:

1. \$1,384,562 was covered by federal deposit insurance; and
2. \$3,216 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

	Category	Fair
	2	Value
Federal agency securities	201,068	201,068
Not subject to categorization:		
Investment in STAR Ohio	-	6,541,278
Total investments	<u>\$201,068</u>	<u>\$6,742,346</u>

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

A reconciliation between the classifications of cash, cash equivalents, and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$8,399,039	\$ -
Investments of the cash management pool:		
Federal agency securities	(201,068)	201,068
Investment for STAR Ohio	(6,541,278)	6,541,278
GASB Statement No. 3	<u>\$1,656,693</u>	<u>\$6,742,346</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003, consist of the following individual fund loans receivable and payable:

	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
General Fund	\$121,991	\$ -
<u>Special Revenue Funds</u>		
EESA/NDEA	-	11,550
Miscellaneous Federal Grants	-	11,730
<u>Agency Funds</u>		
District Agency	-	62,277
<u>Internal Service Funds</u>		
Internal Service Rotary	-	5,349
Employee Benefits Self-Insurance	<u>-</u>	<u>31,085</u>
 Total	 <u>\$121,991</u>	 <u>\$121,991</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003 consisted of accounts, interfund loans, accrued interest and intergovernmental amounts to the extent eligibility requirements were met by year-end, intended to finance fiscal year 2003. Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. A summary of principal items of receivables are as follows:

	<u>Amounts</u>
<u>General Fund</u>	
Due from other governments	\$1,397,706
Accrued interest	12,268
Accounts	2,186
Interfund loan receivable	121,991
 <u>Special Revenue Funds</u>	
Due from other governments	29,636
Accounts	5,525
 <u>Internal Service Funds</u>	
Accounts	81,336

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

NOTE 7 - FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	Restated Balance <u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2003</u>
Furniture/equipment	<u>\$1,039,263</u>	<u>\$79,621</u>	<u>\$(15,130)</u>	<u>\$1,103,754</u>

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the ESC has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. New leases are accounted for as a capital outlay expenditure and other financing source in the General Fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount of \$426,515, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 2003 fiscal year totaled \$88,362. This amount is reflected as debt service principal retirement in the General Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2003:

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

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE – (Continued)

General Long-Term Obligations Account Group

Year Ending <u>June 30</u>	<u>Copiers</u>
2004	\$129,676
2005	125,496
2006	105,749
2007	<u>51,200</u>
Total future minimum lease payments	412,121
Less: amount representing interest Present value of future minimum lease payments	<u>(88,826)</u> <u>\$323,295</u>

In addition, the ESC entered into a five year operating lease in June, 2001 for a copier with monthly payments of \$310. The ESC entered into a five year operating lease in September 2000 with the Richland County Board of Mental Retardation and Development Disabilities for the lease of office space with monthly payments of \$2,053.

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid. The capital leases are being paid from the General Fund.

	Restated Balance <u>July 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2003</u>
Compensated absences	\$240,903	\$ 45,181	\$ -	\$286,084
Pension obligation payable	43,369	43,957	(43,369)	43,957
Capital lease obligation	<u>381,957</u>	<u>29,700</u>	<u>(88,362)</u>	<u>323,295</u>
Total	<u>\$666,229</u>	<u>\$118,838</u>	<u>\$(131,731)</u>	<u>\$653,336</u>

NOTE 10 - RISK MANAGEMENT

The ESC 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 ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 10 - RISK MANAGEMENT – (Continued)

The ESC has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$75,000 for each health benefits claim. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Gallagher Benefits Administrators. Through OME-RESA, the ESC purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

All funds of the ESC participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The ESC's independent third-party administrator has actuarially determined that \$114,751 is a good and sufficient provision for all unmatured claim obligations (including both reported but unpaid claims and incurred but not reported claims, as well as an allowance for claim settlement expenses on the estimated unpaid claims) as of June 30, 2003. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$114,751 reported in the Fund at June 30, 2003 is based on the provisions of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount during the current and past fiscal year follows:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2002 - 2003	\$198,537	\$691,586	\$(775,372)	\$114,751
2001 - 2002	125,813	826,673	(753,949)	198,537

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

**MID-OHIO EDUCATIONAL SERVICE CENTER
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

NOTE 10 - RISK MANAGEMENT - (Continued)

OHIO SCHOOL BOARDS ASSOCIATION WORKERS' COMPENSATION GROUP RATING PROGRAM

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14 percent for 2003, 8.17 percent was the portion to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2002, 5.46 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$317,125, \$239,858, and \$208,510, respectively; 100% has been contributed for each fiscal year.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The ESC contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits, to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions.

The ESC's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$763,790, \$685,073, and \$637,683, respectively; 100 percent has been contributed for each fiscal year.

C. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

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RICHLAND COUNTY, OHIO**

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002 (the latest information available), the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3,011 billion on June 30, 2002. For the ESC, this amount equaled \$54,556 during fiscal 2003.

For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS Ohio were \$354.697 million and STRS Ohio had 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$175,429 during the 2003 fiscal year.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

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

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

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget basis	\$1,000,215	\$(401,093)	\$(7,555)
Net adjustment for revenue accruals	(343,163)	27,439	-
Net adjustment for expenditure accruals	(228,004)	1,528	-
Net adjustment for other financing sources/(uses)	(18,237)	57,220	-
Encumbrances (budget basis)	<u>69,988</u>	<u>191,167</u>	<u>-</u>
GAAP basis	<u>\$ 480,799</u>	<u>\$(123,739)</u>	<u>\$(7,555)</u>

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RICHLAND COUNTY, OHIO**

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

NOTE 14 - RELATED PARTY TRANSACTIONS

During fiscal 2003, the ESC spent a total of \$313,013 of grants on behalf of school districts in Crawford, Morrow and Richland Counties.

NOTE 15 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 2003.

B. Litigation

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

C. School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school funding scheme that is thorough and efficient ...".

The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA #	Pass-through Agency Awarding Number	Receipts	Expenditures
United States Department of Education				
<i>Passed Through the Ohio Department of Education:</i>				
Adult Education - State Grant Program	84.002	123521-ABS1-2003	\$69,368	\$63,220
		123521-ABS1-2002	-	966
Total Adult Education - State Grant Program			<u>69,368</u>	<u>64,186</u>
Special Education Cluster:				
Special Education - Grants to States	84.027	123521-6BEC-2002P	16,800	16,800
Special Education - Preschool Grants	84.173	123521-PGS1-2003P	50,072	47,517
		123521-PGS1-2002P	18,147	5,903
Total Special Education - Preschool Grants			<u>68,219</u>	<u>53,420</u>
Total Special Education Cluster			85,019	70,220
Vocational Education - Basic Grants to States	84.048	123521-20AO-2003	27,450	39,000
		123521-20AO-2002	(10,009)	-
		123521-20AO-2001	(3,914)	-
Total Vocational Education -Basic Grants to States			<u>13,527</u>	<u>39,000</u>
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	123521-G2SP-2001	-	1,484
		123521-G2U1-2001	-	2,875
Total Goals 2000 - State and Local Education Systemic Improvement Grants			<u>-</u>	<u>4,359</u>
Fund for the Improvement of Education	84.215	123521-CJS1-2001	(1,100)	-
Teacher Quality Enhancement Grants	84.336	123521-QES1-2002	1,000	1,000
		123521-QES1-2001	-	466
Total Teacher Quality Enhancement Grants			<u>1,000</u>	<u>1,466</u>
<i>Passed through the Ohio Department of Health:</i>				
Special Education - Grants for Infants and Families with Disabilities	84.181	FY03	31,428	31,428
		FY02	16,146	23,940
Total Special Education - Grants for Infants and Families with Disabilities			<u>47,574</u>	<u>55,368</u>
Total United States Department of Education			215,388	234,599
United States Department of Health and Human Services				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	N/A	476,834	476,834
Total United States Department of Health and Human Services			<u>476,834</u>	<u>476,834</u>
Total			<u><u>\$692,222</u></u>	<u><u>\$711,433</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the Educational Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – REFUND OF FEDERAL FUNDS

The Educational Service Center refunded federal funds totaling \$15,023 to the Ohio Department of Education. These refunds represented funds which were on hand after the period of availability.



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

We have audited the financial statements of the Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated November 20, 2003.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

November 20, 2003



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
1495 Longview Ave
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

Compliance

We have audited the compliance of the Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational 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 program for the year ended June 30, 2003. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Educational 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 Educational Service Center's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Educational 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 Educational 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.

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

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

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

Betty Montgomery
Auditor of State

November 20, 2003

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2004**