



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Columbiana Educational Service Center
Columbiana County
38720 Saltwell Road
Lisbon, Ohio 44432

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Columbiana Educational Service Center, Columbiana County, (the Educational Service Center) as of and for the year ended June 30, 2002, 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 Columbiana Educational Service Center, Columbiana County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types 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 December 19, 2002 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 federal awards expenditures 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, 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, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 19, 2002

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COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,253,820	\$77,085	\$65,488
Cash and Cash Equivalents:			
With Fiscal Agents			
Receivables:			
Accounts	340,184		
Intergovernmental	2,396	170,536	
Interfund Receivable	66,981		
Fixed Assets			
Other Debits:			
Provided from General Government Resources			
Total Assets and Other Debits	<u>\$1,663,381</u>	<u>\$247,621</u>	<u>\$65,488</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$631	\$860	
Accrued Wages and Benefits	655,768	9,298	
Compensated Absences Payable	36,410		
Interfund Payable		66,981	
Intergovernmental Payable	67,378	146	
Deferred Revenue		166,770	
Undistributed Monies			
Due to Students			
Notes Payable			
Claims Payable			
Capital Leases Payable			
Total Liabilities	<u>760,187</u>	<u>244,055</u>	
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved:			
Reserved for Encumbrances	133,865	6,631	195
Unreserved:			
Unreserved, Undesignated	769,329	(3,065)	65,293
Total Fund Equity and Other Credits	<u>903,194</u>	<u>3,566</u>	<u>65,488</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,663,381</u>	<u>\$247,621</u>	<u>\$65,488</u>

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
\$23,361	\$27,554			\$1,447,308
791,689				791,689
225				340,409
				172,932
				66,981
		\$2,714,409		2,714,409
			\$1,115,665	1,115,665
<u>\$815,275</u>	<u>\$27,554</u>	<u>\$2,714,409</u>	<u>\$1,115,665</u>	<u>\$6,649,393</u>
				\$1,491
				665,066
			\$177,708	214,118
				66,981
			59,453	126,977
				166,770
	\$14,987			14,987
	12,567			12,567
			794,509	794,509
\$86,094				86,094
			83,995	83,995
<u>86,094</u>	<u>27,554</u>		<u>1,115,665</u>	<u>2,233,555</u>
		\$2,714,409		2,714,409
729,181				729,181
				140,691
				831,557
<u>729,181</u>		<u>2,714,409</u>		<u>4,415,838</u>
<u>\$815,275</u>	<u>\$27,554</u>	<u>\$2,714,409</u>	<u>\$1,115,665</u>	<u>\$6,649,393</u>

COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
Intergovernmental	\$2,835,737	\$871,568	\$43,877	\$3,751,182
Interest	15,638			15,638
Tuition and Fees	3,349,318			3,349,318
Rent	19,394			19,394
Extracurricular Activities		2,181		2,181
Gifts and Donations		5,061		5,061
Customer Services	329,933	42,262		372,195
Miscellaneous	1,220			1,220
Total Revenues	<u>6,551,240</u>	<u>921,072</u>	<u>43,877</u>	<u>7,516,189</u>
Expenditures:				
Instruction:				
Regular	84,822	94,749		179,571
Special	1,066,634	505,190		1,571,824
Support services:				
Pupils	1,573,059	650		1,573,709
Instructional Staff	1,962,399	72,612	5,400	2,040,411
Board of Education	26,238			26,238
Administration	236,434	86,235		322,669
Fiscal	151,427	13,315		164,742
Operation and Maintenance of Plant	104,775			104,775
Pupil Transportation	599,251			599,251
Central	596,326		71,859	668,185
Non-Instructional Services	15,671	184,978		200,649
Capital Outlay	835,703			835,703
Debt Service				
Debt Service - Principal	28,063			28,063
Debt Service - Interest	7,855			7,855
Total Expenditures	<u>7,288,657</u>	<u>957,729</u>	<u>77,259</u>	<u>8,323,645</u>
Excess of Revenues Over (Under) Expenditures	<u>(737,417)</u>	<u>(36,657)</u>	<u>(33,382)</u>	<u>(807,456)</u>
Other Financing Sources and Uses				
Operating Transfers In	19,250	19,250		38,500
Proceeds from Sale of Long-Term Notes	807,294			807,294
Operating Transfers Out	(19,250)	(19,250)		(38,500)
Total Other Financing Sources (Uses)	<u>807,294</u>			<u>807,294</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	69,877	(36,657)	(33,382)	(162)
Fund Balance at Beginning of Year	<u>833,317</u>	<u>40,223</u>	<u>98,870</u>	<u>972,410</u>
Fund Balance at End of Year	<u>\$903,194</u>	<u>\$3,566</u>	<u>\$65,488</u>	<u>\$972,248</u>

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

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**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types		
	General		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$2,848,550	\$2,833,341	(\$15,209)
Interest	15,650	15,638	(12)
Tuition and Fees	3,580,395	3,242,446	(337,949)
Rent	19,394	19,394	
Extracurricular Activities			
Gifts and Donations			
Customer Service	429,150	329,933	(99,217)
Miscellaneous	1,220	1,220	
Total Revenues	6,894,359	6,441,972	(452,387)
Expenditures:			
Current:			
Instruction:			
Regular	94,123	80,039	14,084
Special	1,754,214	1,162,311	591,903
Support services:			
Pupils	1,797,346	1,670,268	127,078
Instructional Staff	2,151,856	2,081,239	70,617
Board of Education	27,742	26,407	1,335
Administration	307,298	293,837	13,461
Fiscal	161,146	154,276	6,870
Operation and Maintenance of Plant	108,773	107,269	1,504
Pupil Transportation	651,344	647,219	4,125
Central	640,867	621,500	19,367
Non-Instructional Services	15,885	14,896	989
Capital Outlay	835,703	835,703	
Total Expenditures	8,546,297	7,694,964	851,333
Excess of Revenues Over (Under) Expenditures	(1,651,938)	(1,252,992)	398,946
Other Financing Sources and Uses			
Operating Transfers In		19,250	19,250
Proceeds from Sale of Long-Term Notes	807,294	807,294	
Advances In		109,983	109,983
Operating Transfers Out		(19,250)	(19,250)
Advances Out		(56,229)	(56,229)
Total Other Financing Sources (Uses)	807,294	861,048	53,754
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(844,644)	(391,944)	452,700
Fund Balances at Beginning of Year	1,010,105	1,010,105	
Prior Year Encumbrances Appropriated	513,658	513,658	
Fund Balance at end of Year	\$679,119	\$1,131,819	\$452,700

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

Governmental Fund Types					
Special Revenue			Capital Projects		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$1,078,379	\$867,802	(\$210,577)	\$43,877	\$43,877	
2,200	2,181	(19)			
5,100	5,061	(39)			
48,667	42,262	(6,405)			
<u>1,134,346</u>	<u>917,306</u>	<u>(217,040)</u>	<u>43,877</u>	<u>43,877</u>	
105,001	95,981	9,020			
505,933	505,190	743			
1,178	650	528			
97,364	71,621	25,743	7,200	5,700	\$1,500
139,586	90,364	49,222			
13,315	13,315		4,580		4,580
			127,970	72,054	55,916
338,644	180,758	157,886			
<u>1,201,021</u>	<u>957,879</u>	<u>243,142</u>	<u>139,750</u>	<u>77,754</u>	<u>61,996</u>
<u>(66,675)</u>	<u>(40,573)</u>	<u>26,102</u>	<u>(95,873)</u>	<u>(33,877)</u>	<u>61,996</u>
	19,250	19,250			
	56,229	56,229			
	(19,250)	(19,250)			
	(109,983)	(109,983)			
	<u>(53,754)</u>	<u>(53,754)</u>			
(66,675)	(94,327)	(27,652)	(95,873)	(33,877)	61,996
120,584	120,584		77,143	77,143	
37,566	37,566		22,027	22,027	
<u>\$91,475</u>	<u>\$63,823</u>	<u>(\$27,652)</u>	<u>\$3,297</u>	<u>\$65,293</u>	<u>\$61,996</u>

(Continued)

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

	Totals (Memorandum Only)		
	Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$3,970,806	\$3,745,020	(\$225,786)
Interest	15,650	15,638	(12)
Tuition and Fees	3,580,395	3,242,446	(337,949)
Rent	19,394	19,394	
Extracurricular Activities	2,200	2,181	(19)
Gifts and Donations	5,100	5,061	(39)
Customer Service	477,817	372,195	(105,622)
Miscellaneous	1,220	1,220	
Total Revenues	8,072,582	7,403,155	(669,427)
Expenditures:			
Current:			
Instruction:			
Regular	199,124	176,020	23,104
Special	2,260,147	1,667,501	592,646
Support services:			
Pupils	1,798,524	1,670,918	127,606
Instructional Staff	2,256,420	2,158,560	97,860
Board of Education	27,742	26,407	1,335
Administration	446,884	384,201	62,683
Fiscal	179,041	167,591	11,450
Operation and Maintenance of Plant	108,773	107,269	1,504
Pupil Transportation	651,344	647,219	4,125
Central	768,837	693,554	75,283
Non-Instructional Services	354,529	195,654	158,875
Capital Outlay	835,703	835,703	
Total Expenditures	9,887,068	8,730,597	1,156,471
Excess of Revenues Over (Under) Expenditures	(1,814,486)	(1,327,442)	487,044
Other Financing Sources and Uses			
Operating Transfers In		38,500	38,500
Proceeds from Sale of Long-Term Notes	807,294	807,294	
Advances In		166,212	166,212
Operating Transfers Out		(38,500)	(38,500)
Advances Out		(166,212)	(166,212)
Total Other Financing Sources (Uses)	807,294	807,294	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,007,192)	(520,148)	487,044
Fund Balances at Beginning of Year	1,207,832	1,207,832	
Prior Year Encumbrances Appropriated	573,251	573,251	
Fund Balance at end of Year	\$773,891	\$1,260,935	\$487,044

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Types
	Internal Service
Operating Revenues:	
Charges for Services	\$1,244,973
Total Operating Revenues	1,244,973
Operating Expenses	
Fringe Benefits	2,111
Purchased Services	148,636
Materials and Supplies	22,233
Other	746,103
Total Operating Expenses	919,083
Operating Income (Loss)	325,890
Non-Operating Revenues and Expenses	
Interest	8,179
Total Non-Operating Revenues and Expenses	8,179
Net Income (Loss)	334,069
Retained Earnings at Beginning of Year	395,112
Retained Earnings at End of Year	\$729,181

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>
	<u>Internal Service</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$1,244,748
Cash Payments to Suppliers for Goods and Service	(22,233)
Cash Payments for Contract Services	(148,636)
Cash Payments for Employee Benefits	(2,111)
Other Cash Payments	(931,272)
Net Cash Provided (Used) by Operating Activities	<u>140,496</u>
Cash Flows from Investing Activities:	
Interest Received	<u>8,179</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(3,149)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,149)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	145,526
Cash and Cash Equivalents at Beginning of Year	<u>669,524</u>
Cash and Cash Equivalents at End of Year	<u><u>\$815,050</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$325,890
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operating Activities:	
Adjustments for Noncash Transactions	3,149
(Increase) Decrease in Assets:	
Accounts Receivable	(225)
Increase (Decrease) in Liabilities:	
Claims Payable	<u>(188,318)</u>
Total Adjustments	<u>(185,394)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$140,496</u></u>

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Note 1 - Description of the Educational Service Center and Reporting Entity

The Columbiana County Educational Service Center (the "Educational Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the Educational Service Center's support facilities staffed by 48 non-certificated 57 certificated teaching personnel, and three administrators who provide services to 17,822 students and other community members.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds that are not legally separate from the Educational Service Center; this includes all funds and activities whose primary purpose is providing necessary services to area school districts.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes. The Educational Service Center had no component units.

The Educational Service Center is associated with certain organizations, which are defined as a Jointly Governed Organization and Public Entity Risk Pools. These organizations are presented in Notes 13 and 14 to the general-purpose financial statements. These organizations include the Area Cooperative Computerized Educational Service System, the Columbiana County Self-Insurance Consortium and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Note 2 - Summary of Significant Accounting Policies

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

Governmental Fund Types:

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

General Fund - The general fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

Proprietary Fund Type:

The proprietary fund is used to account for the Educational Service Center's ongoing activities, which are similar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include trust and agency funds. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

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

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center except those accounted for in the proprietary funds.

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

B. Measurement Focus and Basis of Accounting

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

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
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(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

C. Budgetary Data

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. The State Board of Education reviews the budget.

Appropriations:

The annual appropriation resolution is enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental fund types.

**COLUMBIANA EDUCATIONAL SERVICE CENTER
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

Lapsing of Appropriations:

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

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

During fiscal year 2002, investments were limited to repurchase agreements. 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 are reported at cost.

During the fiscal year, all investments of the Educational Service Center had a maturity of three months or less. These investments are stated at cost, which approximates market. Under existing Ohio statutes, the Board of Education may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2002, the general fund and self-insurance internal service fund received interest. Interest revenue earned in 2002 totaled \$23,817.

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 maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Intergovernmental Revenues

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

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

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds
T.O.P.S. Grant
Management Information System
Entry Year Program
School Net Connectivity
School Net Professional Development
Special Education Transition
Opportunity Center
BCII
Accessible Communication Technology Sites - ACTS
American Sign Language Pilot Project
Eisenhower Grant
Title VI-B
Preschool Grant
Telecommunications Act Grant
Entry Year Assessment Grant
Constructing Physics Understanding
Americorps Grant
Ohio First Induction Grant

Capital Projects Fund
School Net Equipment Program
Telecommunity Grant

Grants and entitlements amounted to 43 percent of the Educational Service Center's governmental funds revenue during the 2002 fiscal year.

F. Pass-Through Grants

The Educational Service Center is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school district in the County are reported in an agency fund.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

G. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of one hundred and fifty dollars. The Educational Service Center does not have any capitalized infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

H. Compensated Absences

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund, from which the employees who have accumulated unpaid leave, are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, payments made more than sixty days after year-end are considered not to have been made with current available financial resources.

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 2 - Summary of Significant Accounting Policies – (Continued)

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Undesignated fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves are established for encumbrances.

L. Total Columns on General Purpose Financial Statements

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

Note 3 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on-GAAP Basis, All Governmental Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)**

Note 3 - Budgetary Basis of Accounting – (Continued)

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

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

	General	Special Revenue	Capital Projects
Budget Basis	(\$391,944)	(\$94,327)	(\$33,877)
Revenue Accruals	109,268	3,766	
Expenditure Accruals	271,542	(7,231)	300
Other Sources/Uses	(53,754)	53,754	
Encumbrances	134,765	7,381	195
GAAP Basis	\$69,877	(\$36,657)	(\$33,382)

Note 4 - Deposits and Investments

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

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

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

Interim 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 or deposit accounts including passbook accounts.

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

Interim monies to 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:

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

Note 4 - Deposits and Investments – (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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 prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At year end, the Educational Service Center had \$100 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "equity in pooled cash and cash equivalents".

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

At June 30, 2002, the Educational Service Center's self-insurance internal service fund cash balance of \$791,689 cannot be identified as either a deposit or investment. The money is held by the claims servicer in a pooled account, which is representative of numerous entities.

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$52,561 and the bank balance was \$52,802. The bank balance was covered by federal depository insurance.

**COLUMBIANA EDUCATIONAL SERVICE CENTER
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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(CONTINUED)**

Note 4 - Deposits and Investments – (Continued)

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

	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$1,394,647	\$1,394,647	\$1,394,647

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No.9. Reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No.3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,238,997	
Cash on Hand	(100)	
Investments:		
Repurchase Agreement	(1,394,647)	\$1,394,647
Money held by fiscal agent for self-insurance internal service fund	(791,689)	
GASB Statement No. 3	\$52,561	\$1,394,647

Note 5 - State Funding

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

Part (B) of the budget is funded by the State Board of Education from State funds and participating School Districts. The Educational Service Center receives \$37.00 per student for part (B) funding. Six dollars and fifty cents times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local School District's to which the Educational Service Center provides services. These payments are made and received through the State's foundation program. Simultaneously, twenty-nine dollars times the sum of the ADM is paid by the State Board of Education from State funds to the Columbiana County Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$37.00 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation payments. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

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(CONTINUED)**

Note 6 - Fixed Assets

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Building and Grounds		\$975,000		\$975,000
Furniture and Equipment	\$1,042,511	81,716	\$527	1,123,700
Vehicles	468,029			468,029
Capital Leases	147,680			147,680
Totals	\$1,658,220	\$1,056,716	\$527	\$2,714,409

Note 7 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2002, the Educational Service Center contracted with Nationwide Insurance Company for property and general liability insurance.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Vehicles are also covered by Nationwide Insurance Company and hold no deductible for comprehensive and a \$100 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability for property damage and bodily injury, and \$5,000 medical payment coverage per person. Settled claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The Educational Service Center is a member of a claims servicing pool, consisting of area school districts and service centers, within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$86,094 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No.10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past fiscal year is as follows:

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
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Note 7 - Risk Management – (Continued)

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2001	\$74,676	\$1,076,663	\$876,927	\$274,412
2002	\$274,412	\$742,954	\$931,272	\$86,094

Note 8 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$20,563, \$47,758, and \$44,070, respectively, equal to the required contributions for each year.

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307, of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their covered salary and the Educational Service Center is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$765,929, \$370,618, and \$357,056, respectively; nothing was contributed for fiscal year 2002 and 100 percent was contributed for the fiscal years 2001 and 2000. \$46,960 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

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(CONTINUED)**

Note 8 - Defined Benefit Pension Plan – (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School employees Retirement System or the State Teachers Retirement System has an option to choose Social Security or the School Employees Retirement System/State Teacher Retirement System. As of June 30, 1997, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 9 - Postemployment Benefits

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of monthly premiums.

The Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 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 twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2001, the allocation rate is 9.80 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as \$12,400. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits were \$315.7 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .70, then adding the surcharge due as of June 30, 2001, as certified to your district by SERS.

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Note 10 – Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees, administrators and supervisors earn five to twenty days of vacation per year depending upon length of service. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

B. Medical Insurance

The Educational Service Center maintains a health and welfare plan that provides medical, dental, vision, and prescription drug card benefits. The family annual premium is \$9,600 and single annual premium is \$3,300. These premiums are paid to the Columbiana County Self-Insurance Consortium.

C. Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided by the Columbiana County Self-Insurance Consortium.

Note 11 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center from June 30, 2001, to June 30, 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Reductions	Principal Outstanding 6/30/02
Compensated Absences	\$163,476	\$14,232		\$177,708
Intergovernmental	53,853	5,600		59,453
Loan Payable		807,294	\$12,785	794,509
Capital Leases	112,058		28,063	83,995
Totals	\$329,387	\$827,126	\$40,848	\$1,115,665

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2003	\$53,839	\$31,387	\$85,226
2004	55,995	29,231	85,226
2005	58,400	26,826	85,226
2006	60,825	24,401	85,226
2007	63,351	21,875	85,226
Thereafter	502,099	31,907	534,006
Totals	\$794,509	\$165,627	\$960,136

The loan payments noted above will be paid from the general fund.

The capital lease payments will be paid from the general fund.

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 12 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

B. Litigation

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

Note 13 - Jointly Governed Organization

The Area Cooperative Computerized Educational Service System ("ACCESS"), a computer network, which provides data services to twenty-three school districts and service centers, is a jointly governed organization. ACCESS is governed by a Board consisting of one representative, the superintendent or other designee, from each of the participating districts, which exercises total control over the operations including budgeting, appropriating, contracting and designating management. All ACCESS revenues are generated from charges for services and State funding. To obtain financial information write to Area Cooperative Computerized Educational Service System, 2801 Market Street, Youngstown, Ohio 44512.

Note 14 - Public Entity Risk Pools

A. Insurance Purchasing Pool

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

B. Claims Servicing Pool

The Columbiana County Self-Insurance Consortium is a claim's servicing pool, which is comprised of six participating members. The members are Salem City School District, United Local School District, East Palestine City School District, Columbiana County Educational Service Center, Columbiana County Career Center, and Southern Local School District. Each district is represented on the Board of Directors by the respective superintendent (treasurer is alternate). The Board of Directors acts as the budgeting authority with East Palestine as the fiscal agent. Professional Risk Management, Inc. serves the consortium as the claims servicing agent.

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)**

Note 15 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 16 – Interfund Transactions

Interfund balances at June 30, 2002 consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$66,981	
Special Revenue Funds		\$66,981
Total All Funds	\$66,981	\$66,981

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**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SF-02	84.027	501,421	501,421
Special Education - Preschool Grant	PG-S1-01 PG-SC-00	84.173 84.173	27,306 0	27,386 286
Total Special Education Cluster			<u>528,727</u>	<u>529,093</u>
Goals 2000 -State and Local Education Systemic Improvement Grants	G2-S3-01 G2-U1-01 G2-S3-99	84.276	64,750 0 0	65,942 63,639 4,517
Total Goals 2000			<u>64,750</u>	<u>134,098</u>
Eisenhower Professional Development	MS-S1-00	84.281	0	8,319
Total Department of Education			<u>593,477</u>	<u>671,510</u>
<u>CORPORATION FOR NATIONAL & COMMUNITY SERVICE</u>				
<i>Passed Through the Ohio National & Community Service:</i>				
Americorps 2001 Grant	N/A	94.006	52,463	54,304
Americorps 2002 Grant			114,220	167,141
Total Americorps Grant			<u>166,683</u>	<u>221,445</u>
Totals			<u>\$760,160</u>	<u>\$892,955</u>

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

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures 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.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

Columbiana Educational Service Center
Columbiana County
38720 Saltwell Road
Lisbon, Ohio 44432

To the Board of Education:

We have audited the financial statements of the Columbiana Educational Service Center, Columbiana County, (the Educational Service Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 19, 2002. 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated December 19, 2002.

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 deducted 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated December 19, 2002.

Columbiana Educational Service Center
Columbiana County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the Board of Education, management 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

December 19, 2002



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

Columbiana Educational Service Center
Columbiana County
38720 Saltwell Road
Lisbon, Ohio 44432

To the Board of Education:

Compliance

We have audited the compliance of the Columbiana 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, 2002. 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, 2002.

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.

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 Board of Education, management 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

December 19, 2002

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505**

**COLUMBIANA EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster (CFDA # 84.027 & 84.173)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	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



STATE OF OHIO
OFFICE OF THE AUDITOR

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COLUMBIANA EDUCATIONAL SERVICE CENTER

COLUMBIANA 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 28, 2003**