



**Auditor of State
Betty Montgomery**

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Washington County Educational Service Center
Washington County
Route 2, Box 1 A
Marietta, Ohio 45750

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Washington County Educational Service Center, Washington County, Ohio (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 Washington County Educational Service Center, Washington County, as of June 30, 2002, 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 January 31, 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.

The accompanying Schedule of Federal Awards Receipts and 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. 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".

Betty D. Montgomery
Auditor of State

January 31, 2003

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**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Enterprise
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$952,795	\$508,584	\$6,594	\$5,694
<u>Receivables:</u>				
Intergovernmental	57,672	18,275	0	0
Interfund	5,000	0	0	0
Due from Other Funds	799	0	0	0
Materials and Supplies Inventory	27,586	0	0	0
Prepaid Items	7,032	137	0	2,158
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	11,886
<u>Other Debits:</u>				
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	\$1,050,884	\$526,996	\$6,594	\$19,738
 <u>Liabilities, Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$36,908	\$24,893	\$0	\$145
Accrued Wages and Benefits	172,464	14,999	0	117
Compensated Absences Payable	15,483	1,816	0	409
Interfund Payable	0	1,000	0	4,000
Due to Other Funds	0	799	0	0
Intergovernmental Payable	59,810	26,185	0	3,722
Deferred Revenue	22,886	6,619	0	0
Due to Students	0	0	0	0
Total Liabilities	307,551	76,311	0	8,393
 <u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	19,060
Retained Earnings (Deficit)	0	0	0	(7,715)
<u>Fund Balance:</u>				
Reserved for Encumbrances	42,455	144,059	0	0
Reserved for Inventory	27,586	0	0	0
Unreserved, Undesignated	673,292	306,626	6,594	0
Total Fund Equity and Other Credits	743,333	450,685	6,594	11,345
Total Liabilities, Fund Equity and Other Credits	\$1,050,884	\$526,996	\$6,594	\$19,738

See accompanying notes to the general purpose financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$69	\$	\$	\$1,473,736
0	0	0	75,947
0	0	0	5,000
0	0	0	799
0	0	0	27,586
0	0	0	9,327
0	510,777	0	522,663
0	0	52,852	52,852
<u>\$69</u>	<u>\$510,777</u>	<u>\$52,852</u>	<u>\$2,167,910</u>
\$0	\$0	\$0	\$61,946
0	0	0	187,580
0	0	45,872	63,580
0	0	0	5,000
0	0	0	799
0	0	6,980	96,697
0	0	0	29,505
<u>69</u>	<u>0</u>	<u>0</u>	<u>69</u>
<u>69</u>	<u>0</u>	<u>52,852</u>	<u>445,176</u>
0	510,777	0	510,777
0	0	0	19,060
0	0	0	(7,715)
0	0	0	186,514
0	0	0	27,586
<u>0</u>	<u>0</u>	<u>0</u>	<u>986,512</u>
<u>0</u>	<u>510,777</u>	<u>0</u>	<u>1,722,734</u>
<u>\$69</u>	<u>\$510,777</u>	<u>\$52,852</u>	<u>\$2,167,910</u>

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Revenues:				
Intergovernmental	\$700,891	\$847,350	\$6,594	\$1,554,835
Interest	44,052	0	0	44,052
Tuition and Fees	3,100	0	0	3,100
Extracurricular Activities	6,529	0	0	6,529
Gifts and Donations	620	5,500	0	6,120
Contract Services	1,188,121	7,400	0	1,195,521
Miscellaneous	979	0	0	979
Total Revenues	1,944,292	860,250	6,594	2,811,136
Expenditures:				
Current:				
Instruction:				
Regular	54,242	69,796	0	124,038
Special	723,021	335,913	0	1,058,934
Adult/Continuing	0	7,338	0	7,338
Support Services:				
Pupils	288,031	4,001	0	292,032
Instructional Staff	565,331	116,476	11,852	693,659
Board of Education	13,341	0	0	13,341
Administration	70,703	96,014	0	166,717
Fiscal	82,019	1,340	0	83,359
Operation and Maintenance of Plant	59,244	6,801	0	66,045
Pupil Transportation	1,976	22,388	0	24,364
Central	85,194	80,133	0	165,327
Non-Instructional Services	5,481	21,511	0	26,992
Capital Outlay	19,352	15,700	0	35,052
Debt Service:				
Principal	799	0	0	799
Interest and Fiscal Charges	11	0	0	11
Intergovernmental	0	110,988	0	110,988
Total Expenditures	1,968,745	888,399	11,852	2,868,996
Excess of Revenues Over (Under) Expenditures	(24,453)	(28,149)	(5,258)	(57,860)
Fund Balances at Beginning of Year	740,200	504,754	11,852	1,256,806
Increase (Decrease) in Reserve for Inventory	27,586	(25,920)	0	1,666
Fund Balances at End of Year	\$743,333	\$450,685	\$6,594	\$1,200,612

See accompanying notes to the general purpose financial statements

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$692,531	\$701,791	\$9,260
Interest	43,639	44,052	413
Tuition and Fees	3,250	3,100	(150)
Extracurricular Activities	6,127	6,529	402
Gifts and Donations	620	620	0
Contract Services	1,163,585	1,181,319	17,734
Total Revenues	1,909,752	1,937,411	27,659
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	58,881	58,881	0
Special	775,590	775,589	1
Adult/Continuing	0	0	0
Support Services:			
Pupils	312,297	311,671	626
Instructional Staff	621,691	630,201	(8,510)
Board of Education	14,880	14,832	48
Administration	81,746	80,879	867
Fiscal	89,217	89,006	211
Operation and Maintenance of Plant	65,026	64,147	879
Pupil Transportation	3,478	3,478	0
Central	118,656	115,825	2,831
Operation of Non-Instructional Services	5,733	5,733	0
Capital Outlay	30,138	30,138	0
Intergovernmental	0	0	0
Total Expenditures	2,177,333	2,180,380	(3,047)
Excess of Revenues Over (Under) Expenditures	(267,581)	(242,969)	24,612
<u>Other Financing Sources (Uses):</u>			
Refund of Prior Year Receipts	(1,050)	(1,050)	0
Refund of Prior Year Expenditures	1,078	1,078	0
Advances In	129,000	129,000	0
Advances Out	(5,000)	(5,000)	0
Total Other Financing Sources (Uses)	124,028	124,028	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(143,553)	(118,941)	24,612
Fund Balances at Beginning of Year	730,510	730,510	0
Prior Year Encumbrances Appropriated	232,603	232,603	0
Fund Balances (Deficits) at End of Year	\$819,560	\$844,172	\$24,612

See accompanying notes to the general purpose financial statements ⁷

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$840,340	\$840,339	(\$1)
Interest	0	0	0
Tuition and Fees	0	0	0
Extracurricular Activities	0	0	0
Gifts and Donations	5,500	5,500	0
Contract Services	6,895	6,896	1
Total Revenues	852,735	852,735	0
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	113,265	112,826	439
Special	271,504	268,858	2,646
Adult/Continuing	9,555	9,555	0
Support Services:			
Pupils	32,977	32,977	0
Instructional Staff	140,060	139,814	246
Board of Education	0	0	0
Administration	99,996	99,996	0
Fiscal	2,495	2,495	0
Operation and Maintenance of Plant	7,480	7,480	0
Pupil Transportation	48,474	48,225	249
Central	93,136	92,045	1,091
Operation of Non-Instructional Services	53,490	43,939	9,551
Capital Outlay	21,700	21,700	0
Intergovernmental	132,678	132,678	0
Total Expenditures	1,026,810	1,012,588	14,222
Excess of Revenues Over (Under) Expenditures	(174,075)	(159,853)	14,222
<u>Other Financing Sources (Uses):</u>			
Refund of Prior Year Receipts	(144,295)	(144,295)	0
Refund of Prior Year Expenditures	16,309	16,309	0
Advances In	1,000	1,000	0
Advances Out	(129,000)	(129,000)	0
Total Other Financing Sources (Uses)	(255,986)	(255,986)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Use:	(430,061)	(415,839)	14,222
Fund Balances at Beginning of Year	314,179	314,179	0
Prior Year Encumbrances Appropriated	429,704	429,704	0
Fund Balances (Deficits) at End of Year	\$313,822	\$328,044	\$14,222

See accompanying notes to the general purpose financial statements

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$6,595	\$6,595	\$0	\$1,539,466	\$1,548,725	\$9,259
0	0	0	43,639	44,052	413
0	0	0	3,250	3,100	(150)
0	0	0	6,127	6,529	402
0	0	0	6,120	6,120	0
0	0	0	1,170,480	1,188,215	17,735
<u>6,595</u>	<u>6,595</u>	<u>0</u>	<u>2,769,082</u>	<u>2,796,741</u>	<u>27,659</u>
0	0	0	172,146	171,707	439
0	0	0	1,047,094	1,044,447	2,647
0	0	0	9,555	9,555	0
0	0	0	345,274	344,648	626
0	0	0	761,751	770,015	(8,264)
0	0	0	14,880	14,832	48
0	0	0	181,742	180,875	867
0	0	0	91,712	91,501	211
0	0	0	72,506	71,627	879
0	0	0	51,952	51,703	249
0	0	0	211,792	207,870	3,922
0	0	0	59,223	49,672	9,551
0	0	0	51,838	51,838	0
0	0	0	132,678	132,678	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>3,204,143</u>	<u>3,192,968</u>	<u>11,175</u>
<u>6,595</u>	<u>6,595</u>	<u>0</u>	<u>(435,061)</u>	<u>(396,227)</u>	<u>38,834</u>
(11,852)	(11,852)	0	(157,197)	(157,197)	0
0	0	0	17,387	17,387	0
0	0	0	130,000	130,000	0
0	0	0	(134,000)	(134,000)	0
<u>(11,852)</u>	<u>(11,852)</u>	<u>0</u>	<u>(143,810)</u>	<u>(143,810)</u>	<u>0</u>
(5,257)	(5,257)	0	(578,871)	(540,037)	38,834
11,852	11,852	0	1,056,541	1,056,541	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>662,307</u>	<u>662,307</u>	<u>0</u>
<u>\$6,595</u>	<u>\$6,595</u>	<u>\$0</u>	<u>\$1,139,977</u>	<u>\$1,178,811</u>	<u>\$38,834</u>

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise
<u>Operating Revenues:</u>	
Sales	\$35,784
	35,784
Total Operating Revenues	35,784
<u>Operating Expenses:</u>	
Salaries	25,273
Fringe Benefits	6,503
Purchased Services	2,470
Materials and Supplies	2,796
Depreciation	914
Other	660
	38,616
Total Operating Expenses	38,616
Operating Loss	(2,832)
<u>Non-Operating Revenues:</u>	
Gain on Sale of Fixed Assets	700
	700
Total Non-Operating Revenues	700
Net Income (Loss)	(2,132)
Retained Earnings (Deficit) at Beginning of Year	(5,583)
Retained Earnings (Deficit) at End of Year	(7,715)
Contributed Capital at Beginning of Year	19,060
Contributed Capital at End of Year	19,060
Fund Equity at End of Year	\$11,345

See accompanying notes to the general purpose financial statements

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	\$35,784	\$35,784	\$0
Proceeds from Sale of Fixed Assets	0	700	700
Total Revenues	35,784	36,484	700
<u>Expenses:</u>			
Salaries	25,396	25,396	0
Fringe Benefits	10,110	10,110	0
Purchased Services	2,791	2,660	131
Materials and Supplies	3,439	3,459	(20)
Other	1,614	1,614	0
Capital Outlay	12,800	12,800	0
Total Expenses	56,150	56,039	111
Excess of Revenues Over (Under) Expenses	(20,366)	(19,555)	811
Advances In	4,000	4,000	0
Excess of Revenues and Advances Over (Under) Expenses	(16,366)	(15,555)	811
Fund Equity at Beginning of Year	12,253	12,253	0
Prior Year Encumbrances Appropriated	5,585	5,585	0
Fund Equity (Deficit) at End of Year	\$1,472	\$2,283	\$811

See accompanying notes to the general purpose financial statements

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$35,784
Cash Payments to Suppliers for Goods and Services	(5,459)
Cash Payments for Employee Services	(25,396)
Cash Payments for Employee Benefits	(7,360)
Other Cash Payments	(1,614)
Net Cash Used for Operating Activities	(4,045)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Advances In	4,000
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Payments for Capital Acquisitions	(12,100)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,145)
Cash and Cash Equivalents at Beginning of Year	17,839
Cash and Cash Equivalents at End of Year	\$5,694
Reconciliation of Operating Loss to Net	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	(\$2,832)
Adjustments to Reconcile Operating Loss to	
<u>Net Cash Used for Operating Activities:</u>	
Depreciation	914
Changes in Assets and Liabilities:	
Increase in Prepaid Items	(955)
Decrease in Accounts Payable	(192)
Decrease in Accrued Wages and Benefits Payable	(136)
Increase in Compensated Absences Payable	14
Decrease in Intergovernmental Payable	(858)
Total Adjustments	(1,213)
Net Cash Used for Operating Activities	(\$4,045)

See accompanying notes to the general purpose financial statements

NOTE 1 - REPORTING ENTITY

The Washington County Educational Service Center (the "Educational Service Center") is located in Marietta, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to Belpre and Marietta City School Districts; Fort Frye, Frontier, Morgan, Warren, and Wolf Creek Local School Districts; and to the Washington County Joint Vocational School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Washington County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 27 support staff employees and 33 certified teaching personnel.

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

A. Primary Government

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

B. Component Units

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

The Educational Service Center participates in the Southeastern Ohio Voluntary Education Cooperative, the South Eastern Ohio Special Education Regional Resource Center, Washington County Joint Vocational School, and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Plan and the Ohio School Boards Association Workers' Compensation Group Rating Plan, which are defined as insurance purchasing pools. These organizations are presented in Notes 14 and 15.

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

Washington County Educational Service Center, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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.

A. Basis of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the 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 are financed. The acquisition, use, and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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

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

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary fund).

Proprietary Fund Type:

Proprietary funds are 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:

Enterprise Fund - The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the

Washington County Educational Service Center, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Type:

Fiduciary fund types 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. The Educational Service Center's fiduciary fund is an agency fund. 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, other than those accounted for in the proprietary fund.

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

B. Measurement Focus and Basis of Accounting

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

The enterprise fund 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 this fund is included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The enterprise 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 or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the enterprise fund.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified

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accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 governmental funds.

C. Budgetary Process

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

The Educational Service Center 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 Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year unencumbered cash fund balances and accepted by the Board. 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 Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each

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local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center 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 must be approved by the Educational Service Center. The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the proprietary fund type.

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to STAROhio, which is reported at fair value which is based on quoted market prices.

State Treasury Asset Reserve of Ohio (STAROhio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold

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for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$44,052, which includes \$19,457 assigned from other Educational Service Center funds.

For presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. During the fiscal year, the Educational Service Center had no investments that met these criteria.

E. Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the fund. 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 \$250. The Educational Service Center does not have any 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. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of five years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

I. Compensated Absences

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

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

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

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and pension obligations 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 paid using current available financial resources.

Long-term debt and other obligations financed by the enterprise fund operations are reported as liabilities in the appropriate proprietary fund.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and 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.

L. Fund Balance Reserves

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

M. Contributed Capital

Contributed capital represents resources from other funds to the proprietary funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year end. Future contributions of capital will be recorded as revenues and reported as increases to retained earnings.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances/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 (Budget Basis) - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis), Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses 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).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

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

	General	Special Revenue	Capital Projects
GAAP Basis	(\$24,453)	(\$28,149)	(\$5,258)
Revenue Accruals	(5,803)	8,794	0
Expenditure Accruals	(100,079)	(74,013)	1
Prepaid Items	2,222	289	0
Advances In	129,000	1,000	0
Advances Out	(5,000)	(129,000)	0
Encumbrances	(114,828)	(194,760)	0
Budget Basis	(\$118,941)	(\$415,839)	(\$5,257)

Net Loss/Excess of Revenues and
Advances Under Expenses
Proprietary Fund Type

	Enterprise
GAAP Basis	(\$2,132)
Expense Accruals	(1,060)
Prepaid Items	(955)
Capital Outlay	(12,800)
Advances In	4,000
Depreciation Expense	914
Encumbrances	(3,522)
Budget Basis	(\$15,555)

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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments

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may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$139,731 and the bank balance was \$223,422. Of the bank balance, \$188,010 was covered by federal deposit insurance and \$35,412 was collateralized with securities held by the pledging financial institution's trust department in the Educational Service Center's name.

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

The fair value of the investment in STAROhio at June 30, 2002, is \$1,334,005. The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,473,736	\$0
Investment in STAROhio	(1,334,005)	1,334,005
GASB Statement 3	\$139,731	\$1,334,005

NOTE 5 - STATE FUNDING

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

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002, consisted of excess costs, charges for services, and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
CAFS	\$14,746
Customer Services	41,166
Refunds	<u>1,760</u>
Total General Fund	<u>57,672</u>
 Special Revenue Funds:	
Bus Training Classes	679
Alternative Suspension Grant	6,619
Preschool Grant	<u>10,977</u>
Total Special Revenue Funds	<u>18,275</u>
Total Intergovernmental Receivables	<u><u>\$75,947</u></u>

NOTE 7 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Vehicles	\$17,800
Less Accumulated Depreciation	<u>(5,914)</u>
Net Fixed Assets	<u><u>\$11,886</u></u>

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

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$6,828	\$0	\$0	\$6,828
Furniture and Equipment	477,688	19,858	18,676	478,870
Vehicles	25,079	0	0	25,079
Totals	<u>\$509,595</u>	<u>\$19,858</u>	<u>\$18,676</u>	<u>\$510,777</u>

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the Educational Service Center contracted with Gallagher Pipino, Inc. for liability insurance coverage as follows:

General Liability:	
Each occurrence	\$1,000,000
Aggregate Limit	5,000,000
Deductible	1,000
Employers' Liability - Each occurrence	1,000,000
Employee Benefits – occurrence/aggregate	1,000,000

During fiscal year 2002, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 15)

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

Building and Contents – replacement cost	\$398,182
Crime Insurance (\$250 deductible)	25,000
Automobile Liability (\$250 deductible)	1,000,000
Medical Payments	5,000

Settled claims have not exceeded coverage in any of the past three fiscal years.

B. Workers' Compensation

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each

participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations 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 \$60,698, \$73,480, and \$63,044, respectively; 80.48 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$11,846, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 100 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used 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. For fiscal year 2001, 4.2 percent was used to fund the pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service

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Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$26,536, \$15,318, and \$8,183 respectively; 21.95 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 1990. \$20,711, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

NOTE 10 - POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$28,752 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$49,360.

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, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 240 days per year earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 240 days per year do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 135 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 30 days.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource and Medical Life Insurance Company. The Educational Service Center has elected to provide employee prescription and medical/surgical benefits through Medical Mutual. The Board pays eighty percent of the cost of the monthly premiums for employees working more than 30 hours per week; prorated for employees working less than 30 hours per week. Dental insurance is provided by the Educational Service Center to most employees through CoreSource.

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Equipment acquired by lease has been capitalized in the general fixed assets account group in the amount of \$13,273, which is equal to the present value of the future minimum lease payments at the time of acquisition. The lease was paid in full during fiscal year 2002. Principal payments in fiscal year 2002 totaled \$799.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Deductions	Principal Outstanding 6/30/02
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Compensated Absences	\$40,507	\$36,672	\$31,307	\$45,872
Capital Leases	799	0	799	0
Pension Obligation	6,303	6,980	6,303	6,980
Total General Long-Term Obligations	<u>\$47,609</u>	<u>\$43,652</u>	<u>\$38,409</u>	<u>\$52,852</u>

Washington County Educational Service Center, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Southeastern Ohio Voluntary Education Cooperative (SEOVEC) - SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2002, the Educational Service Center paid \$2,540 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition.

South Eastern Ohio Special Education Regional Resource Center – The South Eastern Ohio Special Education Regional Resource Center (SEOSERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2002, the Educational Service Center paid \$1,509 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Washington County Joint Vocational School – The Washington County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the six participating districts' elected boards and one representative from Washington County Educational Service Center's board. The Board possesses its own budgeting and taxing authority. To obtain further information, write to the Washington County Joint Vocational School, Mary Bee, treasurer, at Route 2, Marietta, Ohio 45750.

NOTE 15 - INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan - The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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,

Washington County Educational Service Center, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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.

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

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2002, the Miscellaneous Federal Grants Special Revenue Fund and the Driver's Education Enterprise Fund owed the General Fund \$1,000 and \$4,000, respectively.

Also, the Schoolnet Connectivity and Miscellaneous Special Revenue Funds owed the General Fund \$223 and \$576, respectively, for charges for services.

NOTE 17 - 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 Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 18 - CONTINGENCIES

A. Grants

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

B. Litigation

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

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. Environmental Protection Agency</u>				
<i>Direct Program:</i>				
Environmental Education Grant	N/A	66.951	\$4,000	\$4,323
Total U.S. Environmental Protection Agency			4,000	4,323
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Handicapped Preschool VI-B	050476-PG-S1-00P	84.173	0	515
	050476-PG-S1-01P	84.173	9,309	9,353
	050476-PG-S1-02P	84.173	20,396	15,721
Total Handicapped Preschool VI-B			29,705	25,589
Goals 2000 - State and Local Education Systematic Improvement Grants	050476-G2-SP-00	84.276	0	2,145
	050476-G2-SP-01	84.276	2,500	2,317
Total Goals 2000			2,500	4,462
Total U.S. Department of Education			32,205	30,051
<u>U.S. Department of Health and Human Services</u>				
<i>Passed Through Washington County Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	N/A	93.558	317,701	413,225
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program (Medicaid, Title XIX)	N/A	93.778	60,078	60,078
Total U.S. Department of Health and Human Services			377,779	473,303
<u>Corporation for National and Community Service</u>				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America	050476-SV-S3-01	94.004	0	2,598
	050476-SV-S3-02	94.004	7,085	1,691
Total Learn and Serve America			7,085	4,289
Total Corporation for National and Community Service			7,085	4,289
Total Federal Awards Receipts and Expenditures			\$421,069	\$511,966

The accompanying Notes to this Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



**Auditor of State
Betty D. Montgomery**

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

Washington County Educational Service Center
Washington County
Route 2, Box 1A
Marietta, Ohio 45750

To the Board of Education:

We have audited the general purpose financial statements of Washington County Educational Service Center, Washington County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 31, 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 general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated January 31, 2003.

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 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 January 31, 2003.

Washington County Educational Service Center
Washington 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 management, the Board of Education, 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 D. Montgomery
Auditor of State

January 31, 2003



**Auditor of State
Betty D. Montgomery**

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

Washington County Educational Service Center
Washington County
Route 2, Box 1 A
Marietta, Ohio 45750

To the Board of Education:

Compliance

We have audited the compliance of Washington County Educational Service Center, Washington 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, 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. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated January 31, 2003.

This report is intended for the information and use of management, the Board of Education, 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 D. Montgomery
Auditor of State

January 31, 2003

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
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):	Temporary Assistance for Needy Families, C.F.D.A. #93.558
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002
(Continued)**

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

There were no findings related to the financial statements required to be reported herein.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards that were required to be reported herein.



**Auditor of State
Betty Montgomery**

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WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER

WASHINGTON 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
MARCH 4, 2003**