



**Auditor of State
Betty Montgomery**

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Athens-Meigs Educational Service Center
Athens County
507 Richland Avenue, Suite 108
Athens, Ohio 45701-3700

To the Board of Education:

We have audited the accompanying general purpose financial statements of Athens-Meigs Educational Service Center, Athens County, Ohio (the 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 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 Athens-Meigs Educational Service Center, Athens County, as of June 30, 2002, and the results of its operations 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 February 28, 2003, on our consideration of the 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 presented 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 Montgomery
Auditor of State

February 28, 2003

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ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
Combined Balance Sheet
All Fund Types and Account Groups
As of June 30, 2002

<u>Account Description</u>	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum)</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Fixed Asset (GFAAG)</u>	<u>General Long-Term (GLTDAG)</u>	
Assets and Other Debits:							
Equity in Pooled Cash and Cash Equivalents	\$545,256	\$341,057	\$13,189	\$193,302	\$0	\$0	\$1,092,804
Investments	-	-	-	8,573	-	-	8,573
Receivables:							
Accounts	-	344	-	-	-	-	344
Intergovernmental	15,233	103,610	-	-	-	-	118,843
Due From Other Funds	238	-	-	-	-	-	238
Fixed Assets	-	-	-	-	383,368	-	383,368
Other Debits:							
Provided from General Government Resources	-	-	-	-	-	105,282	105,282
Total Assets and Other Debits	<u>\$560,727</u>	<u>\$445,011</u>	<u>\$13,189</u>	<u>\$201,875</u>	<u>\$383,368</u>	<u>\$105,282</u>	<u>\$1,709,452</u>
Liabilities:							
Accounts Payable	\$7,731	\$228	\$0	\$0	\$0	\$0	\$7,959
Accrued Wages and Benefits	261,912	51,458	-	-	-	-	313,370
Compensated Absences Payable	10,185	216	-	-	-	105,282	115,683
Due to Other Funds	-	238	-	-	-	-	238
Undistributed Monies	-	-	-	163,743	-	-	163,743
Intergovernmental Payable	45,862	12,026	-	-	-	-	57,888
Deferred Revenue	-	8,104	-	-	-	-	8,104
Total Liabilities	<u>325,690</u>	<u>72,270</u>	<u>-</u>	<u>163,743</u>	<u>-</u>	<u>105,282</u>	<u>666,985</u>
Fund Equity and Other Credits:							
Investment in General Fixed Assets	-	-	-	-	383,368	-	383,368
Fund Balances:							
Reserved:							
Reserved for Encumbrances	3,127	104,574	-	-	-	-	107,701
Unreserved:							
Unreserved, Undesignated	231,910	268,167	13,189	38,132	-	-	551,398
Total Fund Equity and Other Credits	<u>235,037</u>	<u>372,741</u>	<u>13,189</u>	<u>38,132</u>	<u>383,368</u>	<u>-</u>	<u>1,042,467</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$560,727</u>	<u>\$445,011</u>	<u>\$13,189</u>	<u>\$201,875</u>	<u>\$383,368</u>	<u>\$105,282</u>	<u>\$1,709,452</u>

See accompanying notes to the general purpose financial statements

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ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 2002

<u>Account Description</u>	<u>Governmental Fund Type</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum)</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues (Governmental):					
Intergovernmental	\$376,645	\$1,055,492	\$13,189	\$0	\$1,445,326
Interest	28,833	-	-	3,408	32,241
Tuition and Fees	1,869,364	35,164	-	-	1,904,528
Gifts and Donations	-	4,660	-	-	4,660
Customer Services	93,231	262,677	-	-	355,908
Miscellaneous	233,536	4,569	-	-	238,105
Total Revenues	<u>2,601,609</u>	<u>1,362,562</u>	<u>13,189</u>	<u>3,408</u>	<u>3,980,768</u>
Expenditures:					
Current:					
Instruction:					
Regular	90,302	494,820	-	-	585,122
Special	1,251,456	4,913	-	-	1,256,369
Vocational	34,152	793	-	-	34,945
Adult/Continuing	-	58,379	-	-	58,379
Other	2,453	61,522	-	-	63,975
Support services:					
Pupils	550,726	248,639	-	-	799,365
Instructional Staff	431,745	611,813	-	-	1,043,558
Board of Education	26,277	-	-	-	26,277
Administration	278,943	42,216	-	-	321,159
Fiscal	118,161	20,686	-	-	138,847
Business	1,398	4,192	-	-	5,590
Operation and Maintenance of Plant	15,251	10,598	-	-	25,849
Pupil Transportation	-	2,537	-	-	2,537
Central	11,579	35,607	-	-	47,186
Non-Instructional Services	-	-	-	-	-
Extracurricular activities	634	-	-	1,500	2,134
Total Expenditures	<u>2,813,077</u>	<u>1,596,715</u>	<u>-</u>	<u>1,500</u>	<u>4,411,292</u>
Excess of Revenues Over (Under) Expenditures	(211,468)	(234,153)	13,189	1,908	(430,524)
Fund Balance at Beginning of Year as Restated in Note 15	449,428	606,894	-	36,224	1,092,546
Increase(Decrease) in Reserve for Inventory	(2,923)	-	-	-	(2,923)
Fund Balance at End of Year	<u>\$235,037</u>	<u>\$372,741</u>	<u>\$13,189</u>	<u>\$38,132</u>	<u>\$659,099</u>

See accompanying notes to the general purpose financial statements

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Budget Basis)
Governmental Fund Types and Similar Trust Funds
For the Fiscal Year Ended June 30, 2002

Account Description	Governmental Fund Types					
	General Fund			Special Revenue		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues (Governmental):						
Intergovernmental	\$0	\$382,932	\$382,932	\$0	\$1,031,648	\$1,031,648
Interest	-	28,833	28,833	-	-	-
Tuition and Fees	-	1,869,364	1,869,364	-	35,299	35,299
Gifts and Donations	-	-	-	-	4,660	4,660
Customer Services	-	93,231	93,231	-	262,677	262,677
Miscellaneous	-	233,022	233,022	-	6,292	6,292
Total Revenues	-	2,607,382	2,607,382	-	1,340,576	1,340,576
Expenditures:						
Current:						
Instruction:						
Regular	-	92,629	(92,629)	-	549,284	(549,284)
Special	-	1,200,841	(1,200,841)	-	5,252	(5,252)
Vocational	-	34,857	(34,857)	-	793	(793)
Adult/Continuing	-	-	-	-	60,125	(60,125)
Other	-	2,453	(2,453)	-	1,046	(1,046)
Support services:						
Pupils	-	535,611	(535,611)	-	254,439	(254,439)
Instructional Staff	-	417,182	(417,182)	-	644,679	(644,679)
Board of Education	-	27,145	(27,145)	-	-	-
Administration	-	274,779	(274,779)	-	42,216	(42,216)
Fiscal	-	116,710	(116,710)	-	20,238	(20,238)
Business	-	1,398	(1,398)	-	4,192	(4,192)
Operation and Maintenance of Plant	-	15,411	(15,411)	-	10,598	(10,598)
Pupil Transportation	-	-	-	-	2,588	(2,588)
Central	-	5,279	(5,279)	-	40,974	(40,974)
Extracurricular activities	-	634	(634)	-	-	-
Total Expenditures	-	2,724,929	(2,724,929)	-	1,636,424	(1,636,424)
Excess of Revenues Over (Under) Expenditures	-	(117,547)	(117,547)	-	(295,848)	(295,848)
Other Financing Sources and Uses:						
Refund of Prior Year Expenditures	-	514	514	-	1,046	1,046
Refund of Prior Year Receipts	-	-	-	-	(60,475)	(60,475)
Total Other Financing Sources (Uses)	-	514	514	-	(59,429)	(59,429)
Excess of Revenues and Other Financing Sources						
Over (Under) Expenditures and Other Financing Uses	-	(117,033)	(117,033)	-	(355,277)	(355,277)
Fund Balances at Beginning of Year	-	613,799	613,799	-	361,265	361,265
Prior Year Encumbrances Appropriated	-	45,601	45,601	-	225,302	225,302
Fund Balance at end of Year	\$0	\$542,367	\$542,367	\$0	\$231,290	\$231,290

See accompanying notes to the general purpose financial statements

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ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 1 - DESCRIPTION OF THE ENTITY

Description of the Educational Service Center:

The Athens-Meigs 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 is a County Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The Educational Service Center is an administrative entity providing supervision and certain other services to the local school districts located in Athens and Meigs Counties. It currently operates under a locally elected Governing Board form of government consisting of seven (7) members elected in the following manner: six members from sub-districts composed of the 6 school districts in Athens and Meigs Counties; and one member at large from sub-districts composed of the 6 school districts in Athens and Meigs Counties

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

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, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations.

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 for which the Educational Service Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2002, the Educational Service Center had no component units.

The Educational Service Center serves as fiscal agent for Southeast Ohio Regional Resource Center (SEO-SERRC). The Educational Service Center administers grants awarded to SEO-SERRC as its fiscal agent. Accordingly, this jointly governed organization is presented as an agency fund within the Educational Service Center's financial statements. The financial statement of 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 more significant of the Educational Service Center's accounting policies are described below.

The following other jointly governed organizations, which perform activities within the Educational Service Center's boundaries for the benefit of its residents, are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

Southeast Ohio Voluntary Education Cooperative (SEOVEC)
Tri-County Joint Vocational School District
Athens County School Employees Health and Welfare Benefit Association

The Educational Service Center also participates in one public entity risk pool:
Ohio School Boards Association Workers Compensation Group Rating Program

These jointly governed organizations and the public entity risk pool are presented in Note 12 to the general purpose financial statements.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of the Athens-Meigs Educational Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The Athens-Meigs 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 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 not recorded in the funds because they do not directly affect net expendable financial sources.

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

Governmental Fund Types:

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

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

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

Capital Project Funds - The 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 or trust funds).

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. The following are the Educational Service Center's fiduciary fund types:

Expendable Trust Fund - Expendable Trust Funds are used to account for assets where both the principal and interest may be spent. Expendable Trust Funds are legally restricted as to use and are accounted for in the same manner as governmental fund types.

Agency Funds - Agency funds are custodial in nature and do not present results of operations or have measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. Agency Funds are used to account for the assets that the Educational Service Center holds for others in agency capacity.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

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 for all fixed assets of the Educational Service Center.

General Long-Term Debt Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

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 and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

Revenues-Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 Athens-Meigs Educational Service Center, available means expected to be received within sixty days of fiscal year end.

None-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 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, and student fees.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have been reported as deferred revenue.

C. Budgetary Data

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable. The Educational Service Center legally adopts its budget on or before July 1. Included in that budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Governing 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 fund balances and are accepted by the Governing Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. The Educational Service Center's Governing Board did not adopt a budget as required by Ohio Law, for the year ended June 30, 2002; therefore, estimated resources are not reflected in the corresponding general purpose financial statements.

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 consists of three parts. Part (A) includes the cost of the 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 appropriations resolution of the Educational Service Center. The State Department of Education reviews the budget and certifies to each 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 must be legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which is the legal level 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. The Governing Board must approve any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures that appear in the statements of budgetary comparisons should 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.

The Educational Service Center's Governing Board did not adopt a budget as required by Ohio Law, for the year ended June 30, 2002; therefore, appropriations are not reflected in the corresponding general purpose financial statements.

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

Lapsing of Appropriations: At the close of each 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.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash is pooled in central bank accounts. Monies for all funds are maintained in this pool, with the exception of two Expendable Trust funds, one that is held in a certificate of deposit and the other in the form of common stock. Individual fund integrity is maintained through the Educational Service Center's 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 certificates of deposit, STAROhio, and common stock. The common stock was received as a donation for a specific purpose and is held as an Expendable Trust Fund.

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

The Educational Service Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2002. 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. Investment in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings.

For purposes of presentation on the combined balance sheet, investments of the cash management pool are considered to be cash equivalents.

E. Inventory

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

F. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire them. Instead, the capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group, except for those acquired by the Agency Funds. 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 three hundred dollars. The Educational Service Center does not possess any infrastructure.

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

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

GASB Statement 16, *Accounting for Compensated Absences*, specifies the methods used to accrue liabilities for leave benefits. 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 employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive termination benefits 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 Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for employees based on age and years of service. 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 debt account group.

H. 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, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources.

I. Interfund Transactions

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

J. Fund Balance Reserves

The Educational Service Center reserves fund balance for amounts that are legally segregated for specific purposes or which are not available for appropriation. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 or results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Flow-Through Grants

The Educational Service Center is the primary recipient of grants, which are passed-through to or spent on behalf of other governmental agencies. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Athens-Meigs Educational Service Center is reporting financial position, results of operation and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (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 Change in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types, is presented on the budgetary basis to provide 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 (GAAP basis).

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 and Similar Fiduciary Fund

	General	Special Revenue
GAAP Basis	(\$211,468)	(\$234,153)
Adjustments:		
Revenue Accruals	6,287	(20,940)
Expenditure Accruals	91,275	4,856
Encumbrances	(3,127)	(105,040)
Budget Basis	(\$117,033)	(\$355,277)

There were no adjustments required for the Capital Projects Fund and the Expendable Trust Fund as the budget basis and the GAAP basis were the same.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Athens-Meigs 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.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 certificate of deposits 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, 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 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 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 or other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
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 interim monies available for investment at any one time.
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Deposits At fiscal year end, the carrying amount of the District's deposits was \$168,454 and the bank balance was \$340,100. Of the bank balance:

1. \$202,727 was covered by federal depository insurance; and
2. \$137,373 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District held to a successful claim by the FDIC.

Investments The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District'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 District'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 District's name. The District's investment in STAR Ohio is an unclassified investment since they it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Carrying Amount	Fair Value
Stocks	\$8,573	\$8,573	\$8,573
STAROhio		924,350	924,350
Total Investments		\$932,923	\$932,923

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

	Cash and Cash Equivalents <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$1,092,804	\$8,573
Investments:		
STAROhio	(924,350)	924,350
GASB Statement No. 3	\$168,454	\$932,923

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 5 - RECEIVABLES

Receivables at June 30, 2002 consisted of entitlements due from local governments and tuition and fees. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund:	
CAFS Reimbursement	\$15,233
Special Revenue Funds:	
ABLE	7,182
Healthy Tomorrow for Children	5,059
Public Preschool Grant	<u>91,369</u>
Total Special Revenue Funds	103,610
Total All Funds	<u>\$118,843</u>

NOTE 6 - FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2002</u>
Furniture and Equipment	<u>\$357,817</u>	<u>\$25,551</u>	<u>\$0</u>	<u>\$383,368</u>

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to tort, 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's property was covered by the insurance coverage maintained by the Athens County Commissioners, the Meigs County Commissioners and additional coverage purchased through Nationwide/Wausau Insurance Company.

Professional liability is protected by the Nationwide/Wausau Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$2,500 deductible.

Ohio Farmer's Insurance Company maintains a \$25,000 public official bond for the Treasurer, a \$10,000 public official bond for the Superintendent, A \$10,000 public official bond for the Executive Secretary and a \$10,000 public official bond for the Secretary to the Treasurer. The Educational Service Center also purchases a blanket bond rider on a liability policy purchased through Nationwide/Wausau Insurance.

The Educational Service Center has had no significant reductions in any of its insurance coverage from that maintained in prior years. Additionally, there have been no insurance settlements that have exceeded insurance coverage in any of the past three years.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 7 - RISK MANAGEMENT (Continued)

B. Workers Compensation

For the fiscal year 2002, the Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). 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 saving 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 GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through the Athens County School Employees Health and Welfare Benefit Association, a jointly governed organization (see Note 12). The Educational Service Center pays 90.5% of monthly premiums for family coverage and 100% of premiums for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

The Educational Service Center provides prescription drug insurance to all eligible employees through the Association. This plan utilizes a \$5 per prescription deductible. The Educational Service Center also provides some dental and vision coverage to eligible employees. The premiums for these are \$43.90 and \$16.93, respectively, and are paid in full by the Educational Service Center.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The Athens-Meigs Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined pension benefit 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 established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

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 years ending June 30, 2002, 2001, and 2000 were \$122,101, \$97,777, and \$82,582, respectively, equal to the required contributions for each fiscal year. All of the required contributions for 2002, 2001, and 2000 have been paid.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2002

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System

The Athens-Meigs Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides 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 financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing State Teacher Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2002 plan members are required to contribute 9.3 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent. Contribution rates are established by STRS, upon the recommendation of its consulting actuary, not to exceed maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contribution for pension obligations to STRS for fiscal years ending June 30, 2002, 2001, and 2000 was \$196,880, \$251,084, and \$238,589, respectively, equal to the required contributions for each fiscal year. All required contributions for 2002, 2001, and 2000 have been paid.

NOTE 9 - 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, and after, 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 \$63,283 during the 2002 fiscal year.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established as \$12,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$99,469 during the 2002 fiscal year.

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 costs of \$315.7 million. SERS had approximately 50,000 participants currently receiving health care benefits.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 10 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Twelve-month employees earn 10 to 20 days of vacation per year, depending upon the length of service and employment classification. Accumulated unused vacation time is paid to employees upon termination of employment. Vacation leave cannot accumulate for more than 10 days. Certified and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 182 days. Upon retirement, payment is made for one-fourth of the total accumulation with no maximum limit set.

Other Health Insurance Options

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through a group policy provided through the Educational Service Center. Coverage is for \$31,000.

NOTE 11 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the Educational Service Center during fiscal year 2002 were as follows:

	Principal Outstanding <u>At June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	Principal Outstanding <u>At June 30, 2002</u>
Compensated Absences	<u>\$115,098</u>	<u>\$0</u>	<u>\$9,816</u>	<u>\$105,282</u>

Compensated absences reported in the "compensated absences payable" account would be paid from the fund from which the employee is paid.

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS & PUBLIC ENTITY RISK POOL

A. Jointly Governed Organizations

Southeast Ohio Voluntary Education Cooperative

The Southeast Ohio Voluntary Education Cooperative (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 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. To obtain financial information write to Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Tri-County Joint Vocational School District

The Tri-County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven appointed representatives from the eight participating school districts and the Educational Service Center. The Board possesses its own budgeting and taxing authority. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain financial information write to the Tri-County Joint Vocational School, Elizabeth Snyder, Treasurer, at 15676 State Route 691, Nelsonville, Ohio 45764.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS & PUBLIC ENTITY RISK POOL (Continued)

Athens County School Employees Health and Welfare Benefit Association

The Educational Service Center is a participant in a consortium of seven districts to operate the Athens County School employees Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be the health care provider for medical benefits as well as to provide aggregate and specific stop-loss insurance coverage, and Coresource to provide administration of its dental benefits. A Board of Directors consisting of one representative of each of the participating districts governs the Association. Financial information for the Association can be obtained from the administrators at Combs & Associates, 9525 TR 50, Dola, Ohio 45835-0098.

Southeastern Ohio Special Education Regional Resource Center

The South Eastern Ohio Special Education Regional Resource Center (SEO-SERRC) 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 families.

SEO-SERRC is governed by a board of eighteen members made up of Thirteen Superintendents, ten of which are from one of the districts located in each county included in SEO-SERRC's service area. SEO-SERRC serves the following counties: Athens, Gallia, Hocking, Jackson, Meigs, Monroe, Morgan, Perry, Vinton, and Washington. The other three Superintendents are appointed from a Joint Vocational School District in the region, a County Board of MR/DD District in the region and the Superintendent of the Athens-Meigs Educational Service Center. The remaining five members are comprised of a University/College Representative, two Parent Representatives (parents of disabled children), a representative from a Chartered/Non-Public School in the region, and a representative from the Southeast Regional Professional Developmental Center. In the case of the Superintendents and the University/College Representative an alternate is also appointed to attend meetings should the original designee not be able to attend. The degree of control exercised by any of the participating school districts is limited to its representation on the Board. 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. The financial activity of SEO-SERRC is as follows:

Beginning Cash Balance	Fiscal YTD Receipts	Fiscal YTD Expended	Year End Balance	Encumbered	Balance Less Encumbered Amount
<u>\$ 195,683.89</u>	<u>\$ 1,053,156.47</u>	<u>\$1,081,802.41</u>	<u>\$167,037.95</u>	<u>\$ 44,518.68</u>	<u>\$122,519.27</u>

B. Public Entity Risk Pool

Ohio School Boards Association Workers' Compensation Group Rating Program

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 Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 13 - 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 the earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The 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 14 - CONTINGENCIES

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.

Litigation:

The Athens-Meigs Educational Service Center is not currently party to legal proceedings.

NOTE 15 –RESTATEMENT OF FUND BALANCES

Due to an accounting error the fund balance in the General fund was restated. This restatement had the following effect on fund balance at June 30, 2001:

	General
Fund Balance at June 30, 2001	\$450,506
Restatement Amount	(1,078)
Adjusted Fund Balance at July 1, 2001	\$449,428

NOTE 16 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2002, the following funds have deficit fund balances which were created by the application of accounting principles generally accepted in the United States of America.

Special Revenue Funds

Early Intervention	(\$439)
Alternative Schools	(\$2,843)

The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2002

NOTE 17 – INTERFUND ACTIVITY

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

	Due From <u>Funds</u>	Due To <u>Funds</u>
<i>General Fund</i>	\$ 238	\$ 0
<i>Special Revenue Funds:</i>		
ABLE	<u>0</u>	<u>238</u>
Total All Funds	<u>\$ 238</u>	<u>\$ 238</u>

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**
**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
Educational Service Center						
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Adult and Community Education	84.002	AB-S1-01 AB-S1-02	\$0 30,689	\$0 0	\$1,435 30,689	\$0 0
Total Adult and Community Education			<u>30,689</u>	<u>0</u>	<u>32,124</u>	<u>0</u>
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S5-00 G2-S9-01	0 0	0 0	3,741 8,049	0 0
Total Goals 2000			<u>0</u>	<u>0</u>	<u>11,790</u>	<u>0</u>
Total United States Department of Education - Educational Service Center			30,689	0	43,914	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Board of Mental Retardation and Developmental Disabilities</i>						
Community Alternative Funding System	93.778	N/A	93,231	0	93,231	0
ABLE - Jobs Subsidy Grant	93.XXX	JB-S1	0	0	457	0
Healthy Tomorrows Partnership for Children Program	93.110V	N/A	44,937	0	45,671	0
Total United States Department of Health and Human Services - Educational Service Center			\$138,168	\$0	\$139,359	\$0
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed through Ohio Department of Education</i>						
Learn and Serve America 2000	94.004	SV-S2	0	0	6,115	0
OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES, NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES						
<i>Passed through the State Library of Ohio</i>						
Library Services and Technology Act Mini Grant	45.310	N/A	15,000	0	0	0
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES FOR EDUCATIONAL SERVICE CENTER			\$183,857	\$0	\$189,388	\$0
Southeastern Ohio Special Education Regional Resource Center (SERRC)						
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SI-01P 6B-SI-02P	\$21,527 634,705	\$0 0	\$148,919 553,323	\$0 0
Total Special Education Grants to States			<u>656,232</u>	<u>0</u>	<u>702,242</u>	<u>0</u>
Special Education - Preschool Grants	84.173	PG-S1-01 PG-S1-01P PG-S7-01 PG-S7-02 PG-S3-01P PG-S3-02P	18,132 0 0 11,250 27,195 59,840	0 0 0 0 0 0	9,129 1,656 1,752 7,652 21,719 54,553	0 0 0 0 0 0
Total Special Education - Preschool Grants			<u>116,417</u>	<u>0</u>	<u>96,461</u>	<u>0</u>
Total Special Education Cluster			772,649	0	798,703	0
Total United States Department of Education - SERRC			772,649	0	798,703	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Board of Mental Retardation and Developmental Disabilities</i>						
Community Alternative Funding System	93.778	N/A	370	0	370	0
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			773,019	0	799,073	0
GRAND TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES BOTH EDUCATIONAL SERVICE CENTER AND SERRC			\$956,876	\$0	\$988,461	\$0

The notes to the Schedule of Federal Awards Receipt and Expenditures are an integral part of this Schedule.

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS 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 Expenditures (the Schedule) summarizes activity of the Center's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – SPECIAL EDUCATION CLUSTER

The Special Education Cluster is administered by the Southeastern Ohio Special Education Regional Resource Center (SEO-SERRC). SEO-SERRC is a ten-county special education service center which selects its own board, adopts its own budget, and receives direct Federal and State grant for its operation.

Although not directly controlled by the Educational Service Center, the financial transactions of SEO-SERRC are handled by the Treasurer of the Educational Service Center and are included on the general purpose financial statements as Agency Funds. The Ohio Department of Education requires the Center to include on their Schedule of Federal Awards Expenditures the federal receipts and expenditures of the Southeastern Ohio Special Education Regional Resource Center.



**Auditor of State
Betty Montgomery**

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

Athens-Meigs Educational Service Center
Athens County
507 Richland Avenue, Suite 108
Athens, Ohio 45701-3700

To the Board of Education:

We have audited the accompanying general purpose financial statements of Athens-Meigs Educational Service Center, Athens County, Ohio (the Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 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 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 general purpose 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 three instances of noncompliance that are required to be reported under *Government Auditing Standards* in the accompanying Schedule of Findings as items 2002-10705-001 through 2002-10705-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated February 28, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that in our judgment, could adversely affect the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-10705-004 and 2002-10705-005.

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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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-10705-004 to be a material weakness. We also noted certain other matters involving internal control over financial reporting that we have reported to the management of the Center in a separate letter dated February 28, 2003.

This report is intended for the information and use of the audit committee, 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.



Betty Montgomery
Auditor of State

February 28, 2003



**Auditor of State
Betty Montgomery**

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

Athens-Meigs Educational Service Center
Athens County
507 Richland Avenue, Suite 108
Athens, Ohio 45701-3700

To the Board of Education:

Compliance

We have audited the compliance of Athens-Meigs Educational Service Center, Athens County, Ohio (the 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 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 Center's management. Our responsibility is to express an opinion on the 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 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 Center's compliance with those requirements.

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

This report is intended for the information and use of the audit committee, management, The 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 Montgomery
Auditor of State

February 28, 2002

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(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):	CFDA # 84.027 Special Ed. Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

FINDING NUMBER 2002-10705-001

Noncompliance Citation

Auditor of State Bulletin 2002-007 reviews the primary revenue sources for Educational Service Centers and classifies those receipts as either intergovernmental or contract services. It states that Educational Service Center's are to utilize the 1200 group of receipt codes to record contract services revenue related to student instruction.

The Center did not classify revenue in accordance with Auditor of State Bulletin 2002-007. In addition, Intergovernmental receipts were not properly coded as to the source of revenue (federal or state) according to appropriate USAS account codes. This resulted in several reclassifications, difficulties when preparing the federal schedule, and could result in errors and/or irregularities occurring and going undetected for an extended period of time. The audited general purpose financial statements reflect the reclassified revenues.

We recommend the Treasurer review Auditor of State Bulletin 2002-007 for guidance on the classification of revenue and refer to grant award documents or other supporting documentation when coding receipts to determine the source of the revenue and corresponding fund posting. In addition, we recommend the Treasurer post receipts utilizing the appropriate USAS codes for sources of federal vs. state revenue.

FINDING NUMBER 2002-10705-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The Center did not receive certification of expenditures from the Treasurer prior to incurring an obligation for 10% of the transactions tested and "Then and Now" certificates were not obtained.

We recommend the Treasurer issue the necessary certification before officials or employees make purchases. If prior certification is not obtained, we recommend the Treasurer obtain the appropriate "Then and Now" certification.

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

FINDING NUMBER 2002-10705-003

Noncompliance Citation

Ohio Rev. Code Section 3317.11 states, in part, that annually, on or before a date designated by the state board of education, each educational service center governing board shall prepare a budget of operating expenses for the ensuing year for the service center on forms prepared and furnished by the state board of education and shall certify the budget to the state board of education.

There was no indication the Center's Board of Education approved the budget certified to the state board of education. The budget the Treasurer certified to the state board of education was not correct and/or was incomplete, such as: The Anticipated Revenue by Source, (Part B of the form), reflected the unencumbered fund balances and should have reflected the estimated revenue. The Appropriations, (Part C of the form), was not included with the budget certified to the state board of education. In addition, the Treasurer certified the budget after the date designated by the state board of education. The lack of an approved budget and/or an incomplete budget could allow deficit spending to occur.

We recommend the Treasurer and the Center's Board of Education carefully review the budget form provided by the state board of education for items such as; the filing deadline, instructions, completeness, etc. Also, we recommend the Center's Board of Education adopt the annual budget. Once approved by the Center's Board of Education, the Treasurer should certify the budget to the state board of education prior to the designated date.

FINDING NUMBER 2002-10705-004

Reportable Condition and Material Weakness

The Center's accounting system reflected estimated revenues that were not approved by the Board. In addition, the appropriation amounts approved by the Board could not be identified; therefore, the appropriations reflected in the Center's accounting system could not be verified. As a result, the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) – Governmental Fund Types and Similar Trust Funds, within the Center's general purpose financial statements, reflect no budgeted revenues or expenditures. Also, utilizing unauthorized estimated revenues and expenditures within the Center's accounting system resulted in the Center's management having insufficient or inaccurate information to make decisions that affected the financial position of the Center which could have resulted in deficit spending.

We recommend the Board of Education establish a policy/procedure to assure that the budgeted amounts recorded in their accounting system only reflects estimated revenues and appropriations approved by the Board of Education.

**ATHENS-MEIGS EDUCATIONAL SERVICE CENTER
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

FINDING NUMBER 2002-10705-005

Reportable Condition

The Center uses time sheets to determine the total compensation for hourly employees each pay period. For salary employee's, the Center's payroll process was to utilize an approved salary notification, issued at the beginning of each fiscal year, to indicate the total salary an employee was to be compensated. However, an approved salary notification was not utilized for salary employees hired during the fiscal year.

Time sheets were not provided for 13% of the hourly employee payroll transactions tested and approved salary notifications were not provided for 33% of the salary employee payroll transactions tested. In addition, the Board of Education's minute record did not reflect the approved pay rates or salaries for these individuals. The lack of such control procedures could allow errors and/or irregularities to occur and remain undetected by management for an extended period of time.

We recommend the Board of Education establish a written policy/procedure to support their current payroll process. The Board of Education should also require salary notifications for salary employees hired during the fiscal year. In addition, the Board of Education's minute record should reflect all relevant information concerning the Board of Education's authorization for employment, pay rates, pay increases, terminations, etc. The records supporting the compensation paid to employees should be maintained in accordance with Ohio Law.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.



**Auditor of State
Betty Montgomery**

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ATHENS-MEIGS EDUCATIONAL SERVICE CENTER

ATHENS 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
MAY 8, 2003**