

Perry-Hocking Educational Service Center

Perry County

Single Audit

July 1, 2002 through June 30, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 8, 2004

Perry-Hocking Educational Service Center
Table of Contents
For the Fiscal Year Ended June 30, 2003

<u>Title</u>	<u>Page</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	10
Reconciliation of Total Governmental Fund	
Balances To Net Assets of Governmental Activities	11
Statement of Revenues, Expenditures, and Changes	
In Fund Balances – Governmental Funds	12
Reconciliation of Statement of Revenues, Expenditures	
And Changes in Fund Balances of Governmental Funds	
To the Statement of Activities.....	13
Statement of Revenues, Expenditures and Changes in	
Fund Balances – Budget and Actual (Budget Basis) –	
General Fund.....	14
Statement of Revenues, Expenditures and Changes in	
Fund Balances – Budget and Actual (Budget Basis) –	
Miscellaneous State Grants Special Revenue Fund	15
Statement of Fund Net Assets –Governmental Activities –	
Internal Service Fund	16
Statement of Revenues, Expenses, and Changes	
In Fund Net Assets – Governmental Activities –	
Internal Service Fund	17
Statement of Cash Flows – Governmental Activities –	
Internal Service Fund	18
Statement of Fiduciary Assets and Liabilities – Agency Fund	19
Notes to the Basic Financial Statements.....	20-40
Schedule of Federal Awards Expenditures	41
Notes to Schedule of Federal Awards Expenditures.....	42
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	43-44
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	45-46
Schedule of Findings & Questioned Costs OMB Circular A-133 Section .505	47
Schedule of Prior Year Findings.....	48

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and miscellaneous state grants fund 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 16, 2004, on our consideration of the Educational Service Center's internal control over financial reporting and on 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 Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
February 16, 2004

Perry-Hocking Educational Service Center, Ohio

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2003 are as follows:

- In total, net assets increased \$709,630, which represents an 86 percent increase from fiscal year 2002.
- Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$6,020,758 , or 95 percent of total revenues.
- The Educational Service Center had \$5,597,352 in total expenses, all of which were offset by program specific charges for services and operating grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the Educational Service Center as a Whole

Statement of New Assets and Statement of Activities

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

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

All of the Educational Service Center's programs and services provided are reported as governmental activities. These activities include; instruction, support services, and non-instructional services.

Perry-Hocking Educational Service Center, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 6. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Miscellaneous State Grants Special Revenue Fund.

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

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2003 compared to 2002.

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$1,100,470	\$1,357,113
Capital Assets	1,505,783	391,933
Total Assets	2,606,253	1,749,046
Liabilities		
Long-term Liabilities	265,367	185,872
Other Liabilities	808,679	740,597
Total Liabilities	1,074,046	926,469
Net Assets		
Invested in Capital Assets, Net of Debt	1,460,386	378,390
Restricted	207,569	436,452
Unrestricted	(135,748)	7,735
Total Net Assets	\$1,532,207	\$822,577

Total assets increased \$857,207. This increase is primarily due to the increase in capital assets. Current assets decreased a total of \$256,643, which is mostly due to the \$212,944 decrease in cash and cash equivalents.

The total liabilities increase of \$147,577 is due increases in accounts and claims payable, capital leases, and compensated absences.

Perry-Hocking Educational Service Center, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Perry-Hocking Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
	<u>2003</u>
Revenues	
Program Revenues	
Charges for Services	\$3,086,272
Operating Grants, Contributions, and Interest	1,905,486
Capital Grants and Contributions	1,029,000
Total Program Revenues	<u>6,020,758</u>
General Revenues	
Grants and Entitlements	227,621
Investment Earnings	18,047
Miscellaneous	40,556
Total General Revenues	<u>286,224</u>
Total Revenues	<u>6,306,982</u>
Program Expenses	
Instruction:	
Regular	760,298
Special	761,946
Adult/Continuing	37,923
Support Services:	
Pupils	813,090
Instructional Staff	1,420,403
Board of Education	47,640
Administration	1,287,064
Fiscal	221,643
Operation and Maintenance of Plant	154,665
Pupil Transportation	3,059
Central	72,943
Operation of Non-Instructional Services	8,419
Extracurricular Activities	5,049
Interest and Fiscal Charges	3,210
Total Expenses	<u>5,597,352</u>
Increase in Net Assets	<u>\$709,630</u>

Over the past several years, the Educational Service Center has remained in good financial position. The Educational Service Center has added several staff members to accommodate the additional instructional and support staff related programs. The combined salaries and benefits as well as supplies have increased the expenses. The expenses for the Perry-Hocking Educational Service Center have increased, but are more than offset by a corresponding increase in revenues.

Perry-Hocking Educational Service Center, Ohio

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003*

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by unrestricted state entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2003	2003
Program Expenses		
Instruction:		
Regular	\$760,298	\$77,036
Special	761,946	(97,173)
Adult/Continuing	37,923	(2,371)
Support Services:		
Pupils	813,090	297,955
Instructional Staff	1,420,403	59,123
Board of Education	47,640	25,400
Administration	1,287,064	(895,781)
Fiscal	221,643	59,292
Operation and Maintenance of Plant	154,665	23,969
Pupil Transportation	3,059	1,695
Central	72,943	25,463
Operation of Non-Instructional Services	8,419	101
Extracurricular Activities	5,049	(1,325)
Interest and Fiscal Charges	3,210	3,210
Total	<u>\$5,597,352</u>	<u>(\$423,406)</u>

THE EDUCATIONAL SERVICE CENTER FUNDS

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$5,251,663 and expenditures of \$5,635,007.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

As services provided to the local school districts change during the fiscal year, adjustments are made from the original budget. One example of a need to increase the budget would be an increase in classroom students. Teacher Aides, which had not been budgeted for originally, would be added to the classroom enrollment factors. This type of request generally comes directly from the Superintendent of the school district where the classroom unit is housed. Additions to personnel are the primary cause for budget revisions and are approved by the Educational Service Center's Board.

For the General Fund, budget basis revenues was \$3,121,218, which remained unchanged from the beginning of the fiscal year. Budget basis expenditures for the General Fund was \$3,750,000, above the original estimate of \$3,270,000.

Perry-Hocking Educational Service Center, Ohio

Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2003, the Educational Service Center had \$1,505,783 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and Land Improvements	\$245,523	\$175,953
Buildings and Improvements	1,010,822	2,553
Furniture and Equipment	232,423	194,026
Vehicles	17,015	19,401
Totals	<u>\$1,505,783</u>	<u>\$391,933</u>

For additional capital asset information, see note 11 to the basic financial statements.

Debt

At June 30, 2003, the Educational Service Center had capital leases outstanding of \$45,397. The leases are for a fax machine and a copier. For additional information on debt, see note 16 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kathy Sampson, Treasurer at Perry-Hocking Educational Service Center, 1605 Airport Road, New Lexington, Ohio 43764.

Perry-Hocking Educational Service Center

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$785,110
Accounts Receivable	1,171
Intergovernmental Receivable	260,167
Prepaid Items	54,022
Nondepreciable Capital Assets	245,523
Depreciable Capital Assets, Net	<u>1,260,260</u>
<i>Total Assets</i>	<u>2,606,253</u>
Liabilities	
Accounts Payable	113,648
Accrued Wages and Benefits Payable	494,370
Vacation Benefits Payable	52,792
Intergovernmental Payable	135,257
Claims Payable	12,612
Long-Term Liabilities:	
Due within One Year	7,953
Due in More than One Year	<u>257,414</u>
<i>Total Liabilities</i>	<u>1,074,046</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,460,386
Restricted for:	
Other Purposes	199,994
Internal Service	7,575
Unrestricted (Deficit)	<u>(135,748)</u>
<i>Total Net Assets</i>	<u><u>\$1,532,207</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Activities
For the Fiscal Year Ended June, 30, 2003

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities:					
Instruction:					
Regular	\$760,298	\$368,405	\$314,857	\$0	(\$77,036)
Special	761,946	532,511	326,608	0	97,173
Adult/Continuing	37,923	0	40,294	0	2,371
Support Services:					
Pupils	813,090	438,847	76,288	0	(297,955)
Instructional Staff	1,420,403	813,651	547,629	0	(59,123)
Board of Education	47,640	22,240	0	0	(25,400)
Administration	1,287,064	681,726	472,119	1,029,000	895,781
Fiscal	221,643	102,703	59,648	0	(59,292)
Operation and Maintenance of Plant	154,665	72,253	58,443	0	(23,969)
Pupil Transportation	3,059	101	1,263	0	(1,695)
Central	72,943	44,480	3,000	0	(25,463)
Operation of Non-Instructional Services	8,419	3,252	5,066	0	(101)
Extracurricular Activities	5,049	6,103	271	0	1,325
Interest and Fiscal Charges	3,210	0	0	0	(3,210)
Totals	\$5,597,352	\$3,086,272	\$1,905,486	\$1,029,000	423,406
General Revenues					
Grants and Entitlements not Restricted to Specific Programs					227,621
Investment Earnings					18,047
Miscellaneous					40,556
<i>Total General Revenues</i>					<u>286,224</u>
<i>Change in Net Assets</i>					709,630
<i>Net Assets at Beginning of Year - See Note 3</i>					<u>822,577</u>
<i>Net Assets at End of Year</i>					<u><u>\$1,532,207</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio

*Balance Sheet
Governmental Funds
June 30, 2003*

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$370,490	\$208,208	\$180,607	\$759,305
Receivables:				
Accounts	1,063	0	108	1,171
Intergovernmental	154,776	43,172	62,219	260,167
Interfund	21,625	0	0	21,625
Due from Other Funds	20,687	0	0	20,687
Prepaid Items	51,769	2,104	5,767	59,640
Total Assets and Other Debits	<u>\$620,410</u>	<u>\$253,484</u>	<u>\$248,701</u>	<u>\$1,122,595</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$7,804	\$104,384	\$1,460	\$113,648
Accrued Wages and Benefits Payable	416,871	14,946	62,553	494,370
Interfund Payable	0	14,065	7,560	21,625
Intergovernmental Payable	71,573	2,931	12,158	86,662
Due to Other Funds	0	13,095	7,592	20,687
Deferred Revenue	60,279	5,318	28,580	94,177
Total Liabilities	<u>556,527</u>	<u>154,739</u>	<u>119,903</u>	<u>831,169</u>
Fund Balances				
Reserved for Encumbrances	21,310	84,600	69,076	174,986
Unreserved, Undesignated, Reported in:				
General Fund	42,573	0	0	42,573
Special Revenue Funds	0	14,145	59,722	73,867
Total Fund Balances	<u>63,883</u>	<u>98,745</u>	<u>128,798</u>	<u>291,426</u>
Total Liabilities and Fund Balances	<u>\$620,410</u>	<u>\$253,484</u>	<u>\$248,701</u>	<u>\$1,122,595</u>

See accompanying notes to the basic financial statements.

Perry-Hocking Education Service Center, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003*

Total Governmental Fund Balances	\$291,426
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,505,783
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds: Grants	94,177
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.	7,575
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(48,595)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: Capital Leases	(45,397)
Vacation Benefits Payable	(52,792)
Sick Leave Benefits Payable	(219,970)
	(318,159)
Net Assets of Governmental Activities	\$1,532,207

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$495,417	\$979,958	\$629,788	\$2,105,163
Interest	18,047	0	0	18,047
Charges for Services	740,328	0	35,900	776,228
Tuition and Fees	2,224,002	0	83,563	2,307,565
Gifts and Donations	0	0	1,625	1,625
Miscellaneous	31,979	0	11,056	43,035
<i>Total Revenues</i>	<u>3,509,773</u>	<u>979,958</u>	<u>761,932</u>	<u>5,251,663</u>
Expenditures				
Current:				
Instruction:				
Regular	340,254	88,646	288,845	717,745
Special	759,928	281	14,352	774,561
Adult/Continuing	8	0	34,240	34,248
Support Services:				
Pupils	712,480	0	90,790	803,270
Instructional Staff	718,154	450,092	255,244	1,423,490
Board of Education	47,640	0	0	47,640
Administration	770,639	449,499	85,832	1,305,970
Fiscal	149,010	55,257	15,444	219,711
Operation and Maintenance of Plant	128,016	0	35,775	163,791
Pupil Transportation	1,194	32,885	1,150	35,229
Central	61,783	0	10,072	71,855
Operation of Non-Instructional Services	650	0	7,769	8,419
Extracurricular Activities	0	0	5,049	5,049
Debt Service:				
Principal Retirement	20,819	0	0	20,819
Interest and Fiscal Charges	3,210	0	0	3,210
<i>Total Expenditures</i>	<u>3,713,785</u>	<u>1,076,660</u>	<u>844,562</u>	<u>5,635,007</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(204,012)</u>	<u>(96,702)</u>	<u>(82,630)</u>	<u>(383,344)</u>
Other Financing Sources				
Inception of Capital Leases	52,673	0	0	52,673
<i>Net Change in Fund Balance</i>	(151,339)	(96,702)	(82,630)	(330,671)
<i>Fund Balances at Beginning of Year - Restated (See Note 3)</i>	<u>215,222</u>	<u>195,447</u>	<u>211,428</u>	<u>622,097</u>
<i>Fund Balances at End of Year</i>	<u><u>\$63,883</u></u>	<u><u>\$98,745</u></u>	<u><u>\$128,798</u></u>	<u><u>\$291,426</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$330,671)

*Amounts reported for governmental activities in the statement
of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Asset Additions	1,202,309	
Depreciation Expense	<u>(84,564)</u>	1,117,745

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets:

Loss on Disposal of Fixed Assets		(3,895)
----------------------------------	--	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants		26,319
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The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities

(3,055)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

20,819

Capital lease proceeds are other financing sources in the governmental funds, but the inception increases the long-term liabilities on the statement of activities.

Inception of Capital Lease		(52,673)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payables	5,811	
Sick Leave Benefits Payable	(47,641)	
Vacation Benefits Payable	<u>(23,129)</u>	<u>(64,959)</u>

Change in Net Assets of Governmental Activities

\$709,630

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$2,679,647	\$2,679,647	\$2,834,888	\$155,241
Interest	30,000	30,000	18,047	(11,953)
Customer Services	411,571	411,571	745,167	333,596
Miscellaneous	0	0	10,979	10,979
<i>Total Revenues</i>	<u>3,121,218</u>	<u>3,121,218</u>	<u>3,609,081</u>	<u>487,863</u>
Expenditures				
Current:				
Instruction:				
Regular	320,000	356,310	356,298	12
Special	818,000	756,649	756,440	209
Adult/Continuing	0	8	8	0
Support Services:				
Pupils	568,800	708,468	708,157	311
Instructional Staff	462,000	734,332	734,332	0
Board of Education	33,000	47,234	46,980	254
Administration	633,000	786,900	786,620	280
Fiscal	142,000	154,421	153,791	630
Operation and Maintenance of Plant	200,000	114,502	110,663	3,839
Pupil Transportation	5,000	1,075	1,075	0
Central	75,500	60,818	60,773	45
Operation of Non-Instructional Services	9,200	9,184	9,184	0
<i>Total Expenditures</i>	<u>3,266,500</u>	<u>3,729,901</u>	<u>3,724,321</u>	<u>5,580</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(145,282)</u>	<u>(608,683)</u>	<u>(115,240)</u>	<u>493,443</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	0	0	235	235
Advances Out	(3,500)	(3,473)	(3,473)	0
Refund of Prior Year Receipts	0	(16,626)	(16,625)	1
<i>Total Other Financing Sources (Uses)</i>	<u>(3,500)</u>	<u>(20,099)</u>	<u>(19,863)</u>	<u>236</u>
<i>Net Change in Fund Balance</i>	(148,782)	(628,782)	(135,103)	493,679
<i>Fund Balance at Beginning of Year</i>	433,782	433,782	433,782	0
Prior Year Encumbrances Appropriated	48,128	48,128	48,128	0
<i>Fund Balance at End of Year</i>	<u>\$333,128</u>	<u>(\$146,872)</u>	<u>\$346,807</u>	<u>\$493,679</u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Miscellaneous State Grants Special Revenue Fund
For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$1,035,686	\$1,035,686	\$992,514	(\$43,172)
<i>Total Revenues</i>	<u>1,035,686</u>	<u>1,035,686</u>	<u>992,514</u>	<u>(43,172)</u>
Expenditures				
Current:				
Instruction:				
Regular	88,882	88,882	88,786	96
Special	758	758	758	0
Support Services:				
Instructional Staff	612,708	612,708	558,402	54,306
Administration	515,675	515,675	461,806	53,869
Fiscal	57,007	57,007	54,081	2,926
Operation and Maintenance of Plant	28,019	28,019	33,952	(5,933)
<i>Total Expenditures</i>	<u>1,303,049</u>	<u>1,303,049</u>	<u>1,197,785</u>	<u>105,264</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(267,363)</u>	<u>(267,363)</u>	<u>(205,271)</u>	<u>62,092</u>
Other Financing Sources (Uses)				
Advances In	9,065	9,065	9,065	0
Refund of Prior Year Receipts	0	0	(32,543)	(32,543)
<i>Total Other Financing Sources (Uses)</i>	<u>9,065</u>	<u>9,065</u>	<u>(23,478)</u>	<u>(32,543)</u>
<i>Net Change in Fund Balance</i>	(258,298)	(258,298)	(228,749)	29,549
<i>Fund Balance at Beginning of Year</i>	34,159	34,159	34,159	0
Prior Year Encumbrances Appropriated	223,138	223,138	223,138	0
<i>Fund Balance (Deficit) at End of Year</i>	<u>(\$1,001)</u>	<u>(\$1,001)</u>	<u>\$28,548</u>	<u>\$29,549</u>

See accompanying notes to the basic financial statements

Perry-Hocking Educational Service Center, Ohio
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
June 30, 2003

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$25,805</u></u>
Liabilities	
Deferred Revenue	5,618
Claims Payable	<u>12,612</u>
<i>Total Liabilities</i>	<u>18,230</u>
Net Assets	
Unrestricted	<u><u>\$7,575</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2003*

Operating Revenues	
Charges for Services	<u>\$70,642</u>
Operating Expenses	
Purchased Services	10,843
Claims	<u>62,854</u>
<i>Total Operating Expenses</i>	<u>73,697</u>
<i>Change in Net Assets</i>	(3,055)
<i>Net Assets at Beginning of Year - Restated (See Note 3)</i>	<u>10,630</u>
<i>Net Assets at End of Year</i>	<u><u>\$7,575</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transaction with Other Funds	\$76,260
Cash Payments to Suppliers for Services	(10,843)
Cash Payments for Claims	<u>(59,106)</u>

Net Cash Provided by Operating Activities 6,311

Cash and Cash Equivalents at Beginning of Year 19,494

Cash and Cash Equivalents at End of Year \$25,805

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities**

Operating Loss (\$3,055)

Changes in Assets and Liabilities

Increase in Claims Payable	3,748
Increase in Deferred Revenue	<u>5,618</u>

Net Cash Provided by Operating Activities \$6,311

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$116,893</u>
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Liabilities

Due to Students	<u>\$116,893</u>
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See accompanying notes to the financial statements.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 1 – Reporting Entity

The Perry-Hocking Educational Service Center (the “Educational Service Center”) is located in New Lexington, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Northern, Southern, Logan-Hocking Local School Districts, the New Lexington City School District, and the Crooksville Exempted Village School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, fifty-two certified teaching personnel, and sixty-six classified employees that provide services to 10,528 students from the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Perry-Hocking Educational Service Center, this includes general operations, preschool, adult/continuing instruction, and student related activities.

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

The Educational Service Center participates in four jointly governed organizations and two insurance purchasing pools. These organizations are the Southeast Ohio Voluntary Educational Consortium, Tri-County Joint Vocational School District, the Mid-East Joint Vocational School District, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers=Compensation Group Rating Plan, and the Ohio School Plan, which are presented in Notes 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund.

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

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this Educational Service Center can be classified using three categories, governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Educational Service Center has two major governmental funds:

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.

Miscellaneous State Grants Special Revenue Fund The Miscellaneous State Grant Special Revenue Fund accounts for various monies received from state agencies which are not classified elsewhere.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the Educational Service Center's self-insurance program for employee dental and vision claims.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equals liabilities) and does not involve the measurement of results of operations. The Educational Service Center's only fiduciary fund is an agency fund, which accounts for resources held for other organizations.

C. Measurement Focus

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

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

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

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

D. Basis of Accounting

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

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 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. On an accrual basis, 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 fiscal 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, fees, and customer services.

Deferred Revenue 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 governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures 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.

Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2003, investments were limited to STAROhio. 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 for at June 30, 2003.

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 2003 amounted to \$18,047, which includes \$13,110 assigned from other Educational Service Center funds.

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 presented as cash and cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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/expenses is reported in the fiscal year in which the services are consumed.

G. Capital Assets

All of the Educational Service Center's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal 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 five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful life of the related capital asset. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	20-25 years
Furniture, Fixtures, and Equipment	5-15 years
Vehicles	5 years

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

H. Interfund Activity

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

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.

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 employees after fifteen years of service.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due to/from Other Funds". Also, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance 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 have been established for encumbrances.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

M. Estimates

The preparation of the 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.

N. Net Assets

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

The Educational Service Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The Educational Service Center had no extraordinary or special items in fiscal year 2003.

P. Budgetary Process

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 3 – Changes in Accounting Principle and Restatement of Fund Balance

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

GASB 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which presents information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. This Statement had no effect on the budgetary presentation of the Educational Service Center for Fiscal Year 2003.

Restatement of Fund Balance For fiscal year 2003, the Educational Service Center has presented for the first time, financial statements in accordance with general accepted accounting principles. The following reflects the adjustments made to restate beginning year fund balance:

	General	Miscellaneous State Grants	Nonmajor	Total
Fund Balances, June 30, 2002	\$481,910	\$257,298	\$351,037	\$1,090,245
Cash to GAAP Adjustments	(266,688)	(61,851)	(27,924)	(356,463)
Fund Reclassification	0	0	(111,685)	(111,685)
Adjusted Fund Balances, June 30, 2002	<u>\$215,222</u>	<u>\$195,447</u>	<u>\$211,428</u>	622,097
GASB 34 Adjustments:				
Capital Assets				391,933
Internal Service Fund				10,630
Pension Obligation				(54,406)
Vacation Benefits Payable				(29,663)
Long-Term Liabilities				(185,872)
Long-Term (Deferred) Assets				<u>67,858</u>
Governmental Activities				
Net Assets, June 30,2002				<u><u>\$822,577</u></u>

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

	Business-Type Activities	
	Internal Service	Enterprise
Fund Equity, June 30, 2002	\$ 19,494	\$ 3,360
Fund Reclassification	-	(3,360)
GAAP Adjustments	(8,864)	-
Adjusted Net Assets, June 30, 2002	10,630	0
Move to Governmental Activities	(10,630)	
Total Business Type Activities	\$ -	\$ -

Note 4 - Accountability

Fund Deficit

At June 30, 2003, the Title I and the Miscellaneous Federal Special Revenue Funds had deficit fund balances of \$1,730 and \$16, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Note 5 - Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund and Miscellaneous State Grants Special Revenue Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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 (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and Miscellaneous State Grants Special Revenue Fund.

Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balance

	General	Miscellaneous State Grants
GAAP Basis	(\$151,339)	(\$96,702)
Revenue Accruals	46,870	12,556
Expenditure Accruals	35,492	27,843
Prepaid Items:		
Beginning of Year	12,532	253
End of Year	(51,501)	(2,104)
Advances	(3,473)	9,065
Encumbrances	(23,684)	(179,660)
Budget Basis	<u>(\$135,103)</u>	<u>(\$228,749)</u>

Note 6 - 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 that 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.

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 or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
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;

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate 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 until 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.

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 \$372,701 and the bank balance was \$774,683. Of the bank balance:

1. \$115,711 was covered by federal depository insurance; and
2. \$658,972 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the Educational Service Center's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

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 fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party'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. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAR Ohio	\$529,302

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$902,003	\$0
STAR Ohio	(529,302)	529,302
GASB Statement 3	\$372,701	\$529,302

Note 7 – 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 local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

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

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 8 - Receivables

Receivables at June 30, 2003, consisted of accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
Community Alternative Funding System	\$93,934
Charges for Services	60,673
Miscellaneous	169
Total General Fund	<u>154,776</u>
 Miscellaneous State Grant Fund:	
Appalachian Science Institute	43,172
 Nonmajor Special Revenue Funds:	
Public Preschool	30
Adult Basic Literacy Education	23,227
Title VI-B Idea	7,500
Drug Free Schools	13,024
Handicapped Preschool	14,892
Drug Free Community	3,546
Total Nonmajor Special Revenue Funds	<u>62,219</u>
 Total Intergovernmental Receivables	 <u><u>\$260,167</u></u>

Note 9 – Interfund Transactions

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due From Funds</u>	<u>Due To Funds</u>
General Fund	\$ 21,625	\$ -	\$ 20,687	\$ -
Miscellaneous State Grants Fund	0	14,065	0	13,095
Nonmajor Funds:				
ABLE Fund	0	4,014	0	
Title I Fund	0	0	0	1,747
Drug Free Schools Fund	0	0	0	5,845
Miscellaneous Federal Grants Fund	0	3,546	0	0
Total All Funds	<u><u>\$ 21,625</u></u>	<u><u>\$ 21,625</u></u>	<u><u>\$ 20,687</u></u>	<u><u>\$ 20,687</u></u>

Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 10 - Risk Management

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, 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 and educational service center 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 18)

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

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
Employee's Benefits Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers-Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). 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 members is calculated as one experience and a common premium rate is applied to all members 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 members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Dental and Vision Benefits

Dental and vision insurance is offered to employees through a self-insurance internal service fund. The fund is responsible for \$76,304 in claims per individual per year. After that, stop-loss covers up to a lifetime maximum of \$1,000,000 per covered classified person and \$2,500,000 per covered certified and exempt person. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

The claims liability of \$12,612 reported in the internal service fund at June 30, 2003, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Beginning of Year	Current Year Claims	Claims Payments	End of Year
2002	\$6,504	\$49,589	\$47,229	\$8,864
2003	8,864	62,854	59,106	12,612

Note 11 – Capital Assets

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

	Balance at 06/30/02	Additions	Deletions	Balance at 06/30/03
Capital Assets:				
Capital Assets not being Depreciated:				
Land and Land Improvements	\$175,953	\$69,570	\$0	\$245,523
Depreciable Capital Assets:				
Buildings and Improvements	3,013	1,029,000	0	1,032,013
Furniture, Fixtures, and Equipment	318,636	103,739	12,981	409,394
Vehicles	22,981	0	0	22,981
Total Depreciable Capital Assets	344,630	1,132,739	12,981	1,464,388
Less Accumulated Depreciation:				
Buildings and Improvements	460	20,731	0	21,191
Furniture, Fixtures, and Equipment	124,610	61,447	9,086	176,971
Vehicles	3,580	2,386	0	5,966
Total Accumulated Depreciation	128,650	84,564 *	9,086	204,128
Total Capital Assets being Depreciated, Net	215,980	1,048,175	3,895	1,260,260
Capital Assets, Net	\$391,933	\$1,117,745	\$3,895	\$1,505,783

Perry-Hocking Educational Service Center, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$15,481
Special	860
Adult/Continuing	2,372
Support Services:	
Pupils	5,555
Instructional Staff	2,865
Administration	43,081
Fiscal	2,100
Operation and Maintenance of Plant	11,535
Pupil Transportation	715
	<hr/>
Total Depreciation Expense	<u>\$84,564</u>

Note 12 - Defined Benefit Pension Plans

A. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$81,058, \$49,198, and \$41,346, respectively; 67.04 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$292,178, \$225,109, and \$177,945 respectively; 86.39 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$0 made by the Educational Service Center and \$2,518 made by the plan members.

Note 13 - Postemployment 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, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$22,475 for fiscal year 2003.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$75,922.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 14- Employee Benefits

A. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to classified and administrative employees in the amount of \$40,000.

Health insurance is provided by Anthem Blue Cross and Blue Shield. Monthly premiums for this coverage are \$795.97 for family coverage and \$257.88 for single coverage. The School District pays 90% of both family and single coverage premiums.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. At fiscal year end, up to ten vacation days can be carried over for not more than one fiscal year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers 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 accumulation is unlimited. Upon retirement, payment is made to employees at 25 percent up to a maximum of 50 days.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 15 – Capital Leases – Lessee Disclosure

The Educational Service Center has entered into capitalized leases for a copier and a fax. Each lease meets the criteria of a capital lease as defined by the 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 are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements.

Future minimum lease payments through 2007 are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$11,525
2005	12,562
2006	12,562
2007	12,562
2008	<u>4,187</u>
Total	53,398
Less: Amount Representing Interest	<u>(8,001)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$45,397</u></u>

The equipment was originally capitalized in the amount of \$58,736. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2003 totaled \$20,819 in the governmental funds.

Property Under Capital Lease	\$58,736
Less: Accumulated Depreciation	<u>(11,160)</u>
Total June 30, 2003	<u><u>\$47,576</u></u>

Note 16 - Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2003 were as follows:

	Principal Outstanding 06/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due in One Year
Governmental Activities:					
Capital Leases	\$13,543	\$52,673	\$20,819	\$45,397	\$7,953
Sick Leave Benefits	<u>172,329</u>	<u>47,641</u>	<u>0</u>	<u>219,970</u>	<u>0</u>
Total Governmental Activities					
Long-Term Liabilities	<u><u>\$185,872</u></u>	<u><u>\$100,314</u></u>	<u><u>\$20,819</u></u>	<u><u>\$265,367</u></u>	<u><u>\$7,953</u></u>

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Capital leases will be paid from the General Fund. Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Public Preschool, Miscellaneous State Grants, and Adult Basic Literacy Education Special Revenue Funds.

Note 17 - Jointly Governed Organizations

A. Southeast Ohio Voluntary Educational Consortium

The Southeast Ohio Voluntary Educational Consortium (SEOVEC) is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to its members. Each member pays a fee annually for services provided by SEOVEC.

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2003, the Educational Service Center paid \$20,477 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

B. 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 representatives from the various City, County, and Educational Service Center Boards within Athens, Hocking, and Perry Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Tri-County Joint Vocational School District, Laura Carney, Treasurer, 15676 State Route 691, Nelsonville, Ohio, 45764.

C. Mid-East Ohio Joint Vocational School District

The Mid-East Ohio Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirteen representatives from the various City, County, and Educational Service Center Boards within Perry, Guernsey, and Muskingum Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Mid-East Ohio Joint Vocational School District, Cindy Nye, Treasurer, 1965 Chandlersville Road, Zanesville, Ohio, 43701.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts and educational service centers 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 and educational service centers within that County. The Council provides various services for school district and education service center 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 member 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. The Educational Service Center paid the Coalition of Rural and Appalachian Schools \$300 for services provided during the year.

Perry-Hocking Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 18 - Insurance Purchasing Pool

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

B. 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 member 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 19 - Contingencies

A. Grants

The Educational Service Center receives 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 are 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, 2003.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as a defendant.

Note 20 - 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 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 its future State funding and on its financial operations.

Perry-Hocking Educational Service Center
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Number	Receipts	Disbursements
United States Department of Education				
<i>Passed through the Ohio Department of Education</i>				
Adult Education State Grant Program	84.002	ABS1	\$3,721	\$60,242
Title I Grants to Local Educational Agencies	84.010	C1ST	33,612	35,763
Special Education Cluster:				
Special Education: Grants to States	84.027	6BSX	21,840	15,366
Special Education: Preschool Grants	84.173	PGS1	9,871	17,094
Total Special Education Cluster			<u>31,711</u>	<u>32,460</u>
Safe and Drug-Free Schools and Communities: National Programs	84.184	T4S1	1,520	5,066
Safe and Drug-Free Schools and Communities: State Grants	84.186	DR-S1	46,240	66,065
Goals 2000: State and Local Education Systematic Improvement Grants	84.276	G2U1	0	27,926
Comprehensive School Reform Demonstration	84.332	FRS3	<u>12,133</u>	<u>15,211</u>
Total United States Department of Education			<u>128,937</u>	<u>242,733</u>
United States Department of Health and Human Services				
<i>Passed Through Ohio Department of Mental Retardation and Development Disabilities</i>				
Medical Assistance Program	93.778		<u>188,029</u>	<u>188,029</u>
Total Federal Financial Assistance			<u>\$316,966</u>	<u>\$430,762</u>

See accompanying notes to the schedule of federal awards expenditures.

Perry-Hocking Educational Service Center, Ohio

Notes to Schedule of Federal Awards Expenditures

For the Fiscal Year Ended June 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Perry-Hocking Education Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

BALESTRA, HARR & SCHERER, CPAS, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry-Hocking Educational Service Center (the Educational Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 16, 2004, in which we indicated the Educational Service Center adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, 41, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over the 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.

Members of the Board
Perry-Hocking Educational Service Center
Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*
Page 2

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

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
February 16, 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

Compliance

We have audited the compliance of Perry-Hocking Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 of the Educational Service Center's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the 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, regulation, 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 solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
February 16, 2004

Perry-Hocking Educational Service Center
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .505
 For the Fiscal Year Ended June 30, 2003

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Perry-Hocking Educational Service Center
Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 2003

Finding Number	Finding Summary	Fully Corrected
2002-11064-001	Ohio Admin. Code Section 117-2-03(B) – Failure to file annual report in accordance with GAAP	Yes

Perry-Hocking Educational Service Center
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .505
 For the Fiscal Year Ended June 30, 2003

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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PERRY-HOCKING EDUCATIONAL SERVICE CENTER

PERRY 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 23, 2004**