



**Auditor of State
Betty Montgomery**

EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Balance Sheet – All Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures, and Changes In Fund Balances – All Governmental Fund Types	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis) – All Governmental Fund Types	5
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings – Proprietary Fund Type	8
Combined Statement of Revenues, Expenses, and Changes in Fund Equity – Budget and Actual (Budget Basis) – Proprietary Fund Type	9
Combined Statement of Cash Flows – Proprietary Fund Type	10
Notes to the General Purpose Financial Statements.....	11
Schedule of Federal Awards Receipts and Expenditures.....	27
Notes to the Schedule of Federal Awards Receipts and Expenditures	28
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	31
Schedule of Findings – <i>OMB Circular A-133 §. 505</i>	33

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Washington County
21742 State Route 676
Marietta, Ohio 45750

To the Governing Board:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2003, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 8, 2003

Educational Service Center
Washington County, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Assets and Other Debits:</u>						
<u>Assets:</u>						
Equity in Pooled Cash and Cash Equivalents	\$ 903,768	\$ 202,481	\$ 6,345	\$ 0	\$ 0	\$ 1,112,594
<u>Receivables:</u>						
Accounts	869	0	0	0	0	869
Intergovernmental	198,537	1,545	0	0	0	200,082
Interfund	9,000		0	0	0	9,000
Prepaid Items	9,603	186	2,415	0	0	12,204
<u>Materials and Supplies</u>						
Inventory	3,479	0	0	0	0	3,479
<u>Fixed Assets (Net, where applicable, of Accumulated Depreciation)</u>						
	0	0	10,972	510,407	0	521,379
<u>Other Debits:</u>						
Amount to be Provided from General Government Resources	0	0	0	0	66,231	66,231
Total Assets and Other Debits	\$1,125,256	\$ 204,212	\$ 19,732	\$ 510,407	\$ 66,231	\$ 1,925,838
<u>Liabilities, Fund Equity and Other Credits:</u>						
<u>Liabilities:</u>						
Accounts Payable	\$ 32,790	\$ 2,642	\$ 116	\$ 0	\$ 0	\$ 35,548
Accrued Wages and Benefits Payable	177,466	14,920	87	0	0	192,473
Compensated Absences Payable	11,713	2,399	464	0	57,852	72,428
Interfund Payable	0	1,000	8,000	0	0	9,000
Intergovernmental Payable	69,958	19,343	2,696	0	8,379	100,376
Deferred Revenue	23,955	0	0	0	0	23,955
Total Liabilities	315,882	40,304	11,363	0	66,231	433,780
<u>Fund Equity and Other Credits:</u>						
Investment in General Fixed Assets	0	0	0	510,407	0	510,407
Retained Earnings	0	0	8,369	0	0	8,369
<u>Fund Balance:</u>						
Reserved for Encumbrances	51,910	8,612	0	0	0	60,522
Reserved for Inventory	3,479	0	0	0	0	3,479
<u>Unreserved:</u>						
Undesignated (Deficit)	753,985	155,296	0	0	0	909,281
Total Fund Equity and Other Credits (Deficit)	809,374	163,908	8,369	510,407	0	1,492,058
Total Liabilities, Fund Equity and Other Credits	\$1,125,256	\$ 204,212	\$ 19,732	\$ 510,407	\$ 66,231	\$ 1,925,838

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

Educational Service Center
Washington County, Ohio
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Revenues:</u>				
Intergovernmental	\$ 715,564	\$ 324,251	\$ 0	\$ 1,039,815
Interest	16,850	0	0	16,850
Tuition and Fees	4,145	0	0	4,145
Extracurricular Activities	5,265	0	0	5,265
Gifts and Donations	2,370	0	0	2,370
Customer Services	1,387,728	10,234	0	1,397,962
Miscellaneous	3,310	0	0	3,310
Total Revenues	2,135,232	334,485	0	2,469,717
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	57,977	56,773	0	114,750
Special	750,360	225,939	0	976,299
Adult/Continuing	0	7,543	0	7,543
Support Services:				
Pupils	298,852	2,415	0	301,267
Instructional Staff	585,700	101,767	6,595	694,062
Board of Education	14,980	0	0	14,980
Administration	84,421	27,136	0	111,557
Fiscal	93,802	1,358	0	95,160
Pupil Transportation	2,283	19,490	0	21,773
Operation of Plant	46,419	1,104	0	47,523
Central	86,755	83,509	0	170,264
Operation of Non-Instructional Services	5,684	23,226	0	28,910
Capital Outlay	17,851	11,726	0	29,577
Intergovernmental	0	59,275	0	59,275
Total Expenditures	2,045,084	621,261	6,595	2,672,940
Excess of Revenues Over (Under) Expenditures	90,148	(286,776)	(6,595)	(203,223)
Fund Balances (Deficits) at Beginning of Year	743,333	450,684	6,595	1,200,612
Decrease in Reserve for Inventory	(24,107)	0	0	(24,107)
Fund Balances (Deficit) at End of Year	\$ 809,374	\$ 163,908	\$ 0	\$ 973,282

The notes to the financial statements are an integral part of this statement

Educational Service Center
Washington County, Ohio
Combined Statement of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$ 710,577	\$ 712,311	\$ 1,734
Interest	15,770	16,850	1,080
Tuition and Fees	4,105	4,105	0
Extracurricular Activities	2,779	5,261	2,482
Customer Services	1,240,220	1,246,572	6,352
Gifts and Donations	2,370	2,370	0
 Total Revenues	 1,975,821	 1,987,469	 11,648
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	59,196	59,195	1
Special	749,900	749,900	0
Adult/Continuing	0	0	0
Support Services:			
Pupils	294,698	294,700	(2)
Instructional Staff	617,851	617,853	(2)
Board of Education	16,779	16,779	0
Administration	92,075	91,536	539
Fiscal	100,482	100,482	0
Pupil Transportation	2,283	2,283	0
Operation of Plant	57,747	57,747	0
Central	143,978	143,279	699
Operation of Non-Instructional Services	6,370	6,370	0
Capital Outlay	28,696	28,696	0
Intergovernmental	0	0	0
 Total Expenditures	 2,170,055	 2,168,820	 1,235
 Excess of Revenues Over (Under) Expenditures	 (194,234)	 (181,351)	 12,883
<u>Other Financing Sources (Uses):</u>			
Refund of Prior Year Expenditures	7,898	7,898	0
Refund of Prior Year Receipts	0	0	0
Advances In	5,000	1,000	(4,000)
Advances Out	0	(5,000)	(5,000)
 Total Other Financing Sources (Uses)	 12,898	 3,898	 (9,000)
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	 (181,336)	 (177,453)	 3,883
 Fund Balances at Beginning of Year	 844,171	 844,171	 0
 Prior Year Encumbrances Appropriated	 108,624	 108,624	 0
 Fund Balances at End of Year	 \$ 771,459	 \$ 775,342	 \$ 3,883
 See accompanying notes to the general purpose financial statements			 (continued)

Educational Service Center
Washington County, Ohio
Combined Statement of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types (Continued)
For the Fiscal Year Ended June 30, 2003

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$ 334,919	\$ 334,919	\$ 0
Interest	0	0	0
Tuition and Fees	0	0	0
Rent	0	0	0
Customer Services	9,369	9,369	0
Miscellaneous	0	0	0
Total Revenues	344,288	344,288	0
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	59,431	59,626	(195)
Special	201,715	201,715	0
Adult/Continuing	9,053	9,053	0
Support Services:			
Pupils	2,415	2,415	0
Instructional Staff	122,593	120,821	1,772
Board of Education	0	0	0
Administration	27,721	27,721	0
Fiscal	2,175	2,175	0
Pupil Transportation	19,490	19,490	0
Operation of Plant	1,104	1,104	0
Central	85,512	85,512	0
Operation of Non-Instructional Services	23,199	23,230	(31)
Capital Outlay	16,226	16,226	0
Intergovernmental	59,276	59,276	0
Total Expenditures	629,910	628,364	1,546
Excess of Revenues Over (Under) Expenditures	(285,622)	(284,076)	1,546
<u>Other Financing Sources (Uses):</u>			
Refund of Prior Year Expenditures	308	308	0
Refund of Prior Year Receipts	(51,981)	(51,981)	0
Advances In	1,000	1,000	0
Advances Out	(1,000)	(1,000)	0
Total Other Financing Sources (Uses)	(51,673)	(51,673)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(337,295)	(335,749)	1,546
Fund Balances at Beginning of Year	328,044	328,044	0
Prior Year Encumbrances Appropriated	180,538	180,538	0
Fund Balances at End of Year	\$ 171,287	\$ 172,833	\$ 1,546

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 1,045,496	\$ 1,047,230	\$ 1,734
0	0	0	15,770	16,850	1,080
0	0	0	4,105	4,105	0
0	0	0	2,779	5,261	2,482
0	0	0	1,249,589	1,255,941	6,352
0	0	0	2,370	2,370	0
0	0	0	2,320,109	2,331,757	11,648
0	0	0	118,627	118,821	(194)
0	0	0	951,615	951,615	0
0	0	0	9,053	9,053	0
0	0	0	297,113	297,115	(2)
6,595	6,595	0	747,039	745,269	1,770
0	0	0	16,779	16,779	0
0	0	0	119,796	119,257	539
0	0	0	102,657	102,657	0
0	0	0	21,773	21,773	0
0	0	0	58,851	58,851	0
0	0	0	229,490	228,791	699
0	0	0	29,569	29,600	(31)
0	0	0	44,922	44,922	0
0	0	0	59,276	59,276	0
6,595	6,595	0	2,806,560	2,803,779	2,781
(6,595)	(6,595)	0	(486,451)	(472,022)	14,429
0	0	0	8,206	8,206	0
0	0	0	(51,981)	(51,981)	0
0	0	0	6,000	2,000	(4,000)
0	0	0	(1,000)	(6,000)	(5,000)
0	0	0	(38,775)	(47,775)	(9,000)
(6,595)	(6,595)	0	(525,226)	(519,797)	5,429
6,595	6,595	0	1,178,810	1,178,810	0
0	0	0	289,162	289,162	0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 942,746</u>	<u>\$ 948,175</u>	<u>\$ 5,429</u>

Educational Service Center
Washington County, Ohio
Combined Statement of Revenues,
Expenses and Changes in Retained Earnings
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	<u>Enterprise</u>
<u>Operating Revenues:</u>	
Sales	\$ 34,885
 Total Revenues	 34,885
 <u>Operating Expenses:</u>	
Salaries and Wages	24,895
Fringe Benefits	5,333
Purchased Services	1,486
Materials and Supplies	2,406
Other	2,827
Depreciation	914
 Total Expenses	 37,861
 Net Income (Loss)	 (2,976)
 Retained Earnings at Beginning of Year	 11,345
 Retained Earnings at End of Year	 \$ 8,369

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

Educational Service Center
Washington County, Ohio
Combined Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	\$ 34,885	\$ 34,885	\$ 0
Total Revenues	34,885	34,885	0
<u>Expenses:</u>			
Salaries and Wages	24,851	24,851	0
Fringe Benefits	8,983	8,983	0
Purchased Services	2,521	2,521	0
Materials and Supplies	2,721	2,721	0
Other	1,665	2,115	(450)
Total Expenses	40,741	41,191	(450)
Excess of Revenues Under Expenses	(5,856)	(6,306)	(450)
Advances In	4,000	4,000	0
Excess of Revenues Over Expenses and Operating Transfers and Advances	(1,856)	(2,306)	(450)
Fund Equity at Beginning of Year	2,283	2,283	0
Prior Year Encumbrances Appropriated	3,411	3,411	0
Fund Equity at End of Year	\$ 3,838	\$ 3,388	\$ (450)

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

Educational Service Center
Washington County, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

	<u>Enterprise</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 34,885
Cash Payments to Suppliers for Goods and Services	(4,889)
Cash Payments for Employee Services	(24,852)
Cash Payments for Employee Benefits	(6,378)
Other Cash Payments	<u>(2,115)</u>
Net Cash Used for Operating Activities	<u>(3,349)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Advances In	4,000
Net Cash Provided by Noncapital Financing Activities	<u>4,000</u>
Net Increase in Cash and Cash Equivalents	651
Cash and Cash Equivalents at Beginning of Year	<u>5,694</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 6,345</u></u>
<u>Reconciliation of Operating Loss to Net</u>	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	<u>\$ (2,976)</u>
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	914
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	(257)
Decrease in Accounts Payable	(29)
Increase in Accrued Wages and Benefits Payable	(30)
Increase in Compensated Absences Payable	55
Decrease in Intergovernmental Payable	<u>(1,026)</u>
Total Adjustments	<u>(373)</u>
Net Cash Used for Operating Activities	<u><u>\$ (3,349)</u></u>

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

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1 - REPORTING ENTITY

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

The Washington County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Service Center has 24 support staff employees and 31 certified teaching personnel.

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

A. Primary Government

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

B. Component Units

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

The Service Center participates in the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, and the South Eastern Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Plan and the Ohio School Boards Association Workers' Compensation Group Rating Plan, which are defined as insurance purchasing pools. These organizations are presented in Notes 13 and 14.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

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

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

Governmental Fund Types:

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

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

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

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

PROPRIETARY FUND TYPE:

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

Enterprise Fund - The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Account Groups:

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

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Service Center, other than those accounted for in the proprietary fund.

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

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

B. Measurement Focus and Basis of Accounting

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

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

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified 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 Service Center, available means expected to be received within sixty days of fiscal year end.

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

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

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

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The presentation of budgetary statements, however, is voluntary.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

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

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

Appropriations:

The annual appropriation resolution is legally enacted by the Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Service Center. The Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

During fiscal year 2003, investments were limited to STAROhio, which is reported at fair value which is based on quoted market prices.

State Treasury Asset Reserve of Ohio (STAROhio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on 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 \$16,850, which includes \$3,837 assigned from other Service Center funds.

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

E. Inventory

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

F. Prepaid Items

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

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise fund are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of \$250. The Service Center does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

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

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

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 Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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 Service Center's termination policy. The Service Center records a liability for accumulated unused sick leave for all employees after twenty-five years of current service with the Service Center.

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Interfund Transactions

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

L. Fund Balance Reserves

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

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

	General	Special Revenue	Capital Projects
GAAP Basis	\$90,148	(\$286,776)	(\$6,595)
Revenue Accruals	(139,865)	10,111	0
Expenditure Accruals	7,260	(32,344)	0
Prepaid Items	(2,571)	(49)	0
Advances In	1,000	1,000	0
Advances Out	(5,000)	(1,000)	0
Encumbrances	(128,425)	(26,691)	0
Budget Basis	(\$177,453)	(\$335,749)	(\$6,595)

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

Net Loss/Excess of Revenues and Advances Under Expenses Proprietary Fund Type	Enterprise
GAAP Basis	(\$2,976)
Expense Accruals	(1,030)
Prepaid Items	(257)
Advances In	4,000
Depreciation Expense	914
Encumbrances	(2,957)
Budget Basis	(\$2,306)

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year end, the carrying amount of the Service Center's deposits was \$309,370 and the bank balance was \$370,771. Of the bank balance, \$162,485 was covered by federal depository insurance and \$208,286 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Service Center held to a successful claim by the FDIC.

Investments: The Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Service Center or its agent in the Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the 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 Service Center's name. The fair value of the investment in STAR Ohio at June 30, 2003, is \$803,224.

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 1,112,594	\$ 0
Investment in STAROhio	(803,224)	803,224
GASB Statement 3	\$ 309,370	\$ 803,224

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5 - STATE FUNDING

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

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principle items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
CAFS	\$ 23,274
Special Education Billings	142,527
Customer Services	29,016
Entry Year	3,450
Refunds	<u>270</u>
Total General Fund	<u>198,537</u>
 Special Revenue Funds:	
Bus Training Classes	<u>1,545</u>
Total Intergovernmental Receivables	<u><u>\$ 200,082</u></u>

NOTE 7 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2003, follows:

Vehicles	\$ 17,800
Less Accumulated Depreciation	<u>(6,828)</u>
Net Fixed Assets	<u><u>\$ 10,972</u></u>

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

A summary of the changes in general fixed assets during fiscal year 2003 follows:

Asset Category	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
Land and Improvements	\$ 6,828	\$ 0	\$ 0	\$ 6,828
Furniture and Equipment	478,870	2,251	2,621	478,500
Vehicles	25,079	0	0	25,079
Totals	<u>\$ 510,777</u>	<u>\$ 2,251</u>	<u>\$ 2,621</u>	<u>\$ 510,407</u>

NOTE 8 - RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the Service Center contracted with the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each participating school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Service Center pays this annual premium to the OSP (See Note 14).

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
Deductible (Education Liability Only)	\$2,500
Employers' Liability - Each Occurrence	\$1,000,000
Employee Benefits:	
Occurrence	\$1,000,000
Aggregate	\$3,000,000
Building and Contents (Replacement Cost)	\$410,100
Employee Dishonesty (\$1,000 Deductible)	\$25,000
Automobile Liability (\$250 Deductible)	\$1,000,000
Medical Payments	\$5,000

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

B. Workers' Compensation

For fiscal year 2003, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The 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.

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 Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. 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 Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$160,609, \$60,698, and \$73,480, respectively; 89.5 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 \$3,024 made by the Service Center and \$2,678 made by the plan members.

B. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute 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.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

Plan members are required to contribute 9 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center's rate is 14 percent of annual covered payroll. A portion of the 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. 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 Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$46,718, \$26,536, and \$15,318, respectively; 27.32 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

NOTE 10 - POST-EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$12,355 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 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 of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 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, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Service Center, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$41,717.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Insurance Benefits

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

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Service Center's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
Compensated Absences	\$ 45,872	\$ 33,891	\$ 21,911	\$ 57,852
Pension Obligation	6,980	8,379	6,980	8,379
Total General Long-Term Obligations	<u>\$ 52,852</u>	<u>\$ 42,270</u>	<u>\$ 28,891</u>	<u>\$ 66,231</u>

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

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Southeastern Ohio Voluntary Education Cooperative (SEOVEC) - SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2003, the Service Center paid \$1,210 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at P.O. Box 1250, Athens, Ohio 45701.

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools consists of over one hundred school districts in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts within that County. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

The Coalition is not dependent upon the continued participation of the Service Center and the Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. During the fiscal year 2003, the Service Center paid \$300 to the Coalition.

South Eastern Ohio Special Education Regional Resource Center – The South Eastern Ohio Special Education Regional Resource Center (SEOSERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2003, the Service Center paid \$1,521 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

NOTE 14 - INSURANCE PURCHASING POOLS

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

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

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2003, the Miscellaneous Federal Grants Special Revenue Fund and the Driver's Education Enterprise Fund owed the General Fund \$1,000 and \$8,000, respectively.

NOTE 16 - 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.

**Educational Service Center
Washington County, Ohio
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 17 - CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2003.

B. Litigation

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

**EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Disbursements
ENVIRONMENTAL PROTECTION AGENCY				
<i>Passed through Ohio Environmental Protection Agency:</i>				
Environmental Education Grants	66.951	N/A	\$ 4,662	\$ 3,310
Total Environmental Protection Agency			4,662	3,310
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed through Ohio Department of Education:</i>				
Special Education - Preschool Grants	84.173	PGS1-2001P PGS1-2002P PGS1-2003P	10,977 22,358	(902) 15,612 20,359
Total Special Education - Preschool Grants			33,335	35,069
Safe and Drug-Free Schools and Communities - State Grants	84.184	T4S1-2003	1,631	887
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2SP-2001		268
Total United States Department of Education			34,966	36,224
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Washington County Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	93.558	N/A	(49,369)	272,174
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	N/A	52,152	52,152
Total United States Department of Health and Human Services			2,783	324,326
CORPORATION FOR NATIONAL SERVICE				
<i>Passed through Ohio Department of Education:</i>				
Learn and Serve America - School and Community Based Programs	94.004	SVS4-2001 SVS3-2002 SVS3-2003	(1,179) 7,010	60 5,394 4,670
Total Learn and Serve America - School and Community Based Programs			5,831	10,124
Total Corporation for National Service			5,831	10,124
Total Federal Awards Receipts and Expenditures			\$ 48,242	\$ 373,984

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

**EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – REFUNDS

During 2003, the Service Center refunded to the Washington County Department of Job and Family Services and the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Washington County Department of Job and Family Services and Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the refunds are as follows:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Pass - Through Entity Number</u>	<u>Refund</u>
93.558	Temporary Assistance to Needy Families (TANF)	N/A	\$ 49,369
94.004	Learn and Serve America	SVS4-2001	1,179

NOTE C – ADJUSTMENT

During 2003, the Service Center posted supply expenditures to the 2001 Preschool Handicap Grant (CFDA #84.173), which had a grant fiscal year ending on September 30. The supply expenditures should have been posted to the 2002 Preschool Handicap Grant. The Treasurer made the adjustment prior to June 30, 2003, and there were not enough expenditures in the 2001 Preschool Handicap Grant to absorb the adjustment. Additional expenditures were made in the 2001 Preschool Handicap Grant after June 30, 2003 to offset the adjustment. The net effect of this adjustment reflected a negative \$902 in expenditures for the Preschool Handicap Grant on the Schedule for 2003.



**Auditor of State
Betty Montgomery**

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

Educational Service Center
Washington County
21742 State Route 676
Marietta, Ohio 45750

To the Governing Board:

We have audited the accompanying general purpose financial statements of the Educational Service Center, Washington County, Ohio (the Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 8, 2003.

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

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

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

Betty Montgomery
Auditor of State

December 8, 2003



Auditor of State Betty Montgomery

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

Educational Service Center
Washington County
21742 State Route 676
Marietta, Ohio 45750

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center, Washington County, Ohio (the 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 Service Center's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the 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 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 Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Educational Service Center
Washington County
Report of Independent Accountants on Compliance with
Requirements Applicable to Each Major Federal Program and
Internal Control Over Compliance in Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to the management of the Service Center in a separate letter dated December 19, 2003.

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

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

Betty Montgomery
Auditor of State

December 19, 2003

**EDUCATIONAL SERVICE CENTER
WASHINGTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Temporary Assistance for Needy Families – CFDA #93.558
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

This Page is Intentionally Left Blank.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

WASHINGTON COUNTY EDUCATIONAL SERVICE CENTER

WASHINGTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 27, 2004**