



**Auditor of State
Betty Montgomery**

**GALLIA-VINTON EDUCATIONAL SERVICE CENTER
GALLIA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Gallia-Vinton Educational Service Center
Gallia County
P.O. Box 178
Rio Grande, Ohio 45674

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Gallia-Vinton Educational Service Center, Gallia County, Ohio (the Educational Service Center) 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 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Gallia-Vinton Educational Service Center, Gallia County, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the Educational Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. Also, as mentioned in Note 3, during the year ended June 30, 2003, the Educational Service Center adopted Governmental Accounting Statements 37 and 38 and Interpretation 6.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2004 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Gallia-Vinton Educational Service Center
Gallia County
Independent Accountants' Report

Managements' Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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.

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

Betty Montgomery
Auditor of State

February 4, 2004

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Gallia-Vinton Educational Service Center's (the Educational Service Center) discussion and analysis of the annual financial report provides a review of the financial performance 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.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The Educational Service Center's assets exceeded its liabilities at June 30, 2003 by \$245,986.
- The Educational Service Center's net assets of governmental activities increased \$50,102 which represents a 20 percent increase from 2002.
- General revenues accounted for \$330,324 in revenue or 68 percent of all revenues. Program specific revenues in the form of charges for services and sales accounted for \$159,014 or 32 percent of total revenues of \$489,338.
- The Educational Service Center had \$439,236 in expenses related to governmental activities; \$159,014 of these expenses was offset by program specific charges for services and sales.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Gallia-Vinton Educational Service Center's financial situation as a whole and also give a detailed view of the Educational Service Center's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the Educational Service Center as a whole and present a longer-term view of the Educational Service Center's finances. Major 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 the amount of funds available for future spending.

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

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

The analysis of the Educational Service Center as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the Educational Service Center is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes to those assets. This change informs the reader whether the Educational Service Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the Educational Service Center's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center has only one kind of activity.

- **Governmental Activities.** All of the Educational Service Center's programs and services are reported here including support services, operation and maintenance of capital assets, and pupil transportation.

REPORTING THE EDUCATIONAL SERVICE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Educational Service Center's funds begins on page 11. Fund financial statements provide detailed information about the Educational Service Center's major fund – not the Educational Service Center as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Educational Service Center is meeting legal responsibilities for use of grants. The Gallia-Vinton Educational Service Center's only major fund is the General fund.

Governmental Funds. All 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 year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that

Gallia-Vinton Educational Service Center
 Gallia County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

can be spent in the near future to finance educational support services. The relationship (or difference) 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

As stated previously, 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.

Table 1
 Net Assets

	2003	2002
Assets:		
Current Assets	\$319,271	\$252,697
Capital Assets, Net	7,688	720
Total Assets	326,959	253,417
Liabilities:		
Current and Other Liabilities	27,532	26,358
Long-Term Liabilities	53,441	31,175
Total Liabilities	80,973	57,533
Net Assets:		
Invested in Capital Assets, Net of Related Debt	7,688	720
Restricted	89,075	17,734
Unrestricted	149,223	177,430
Total Net Assets	\$245,986	\$195,884

Total net assets of the Educational Service Center as a whole increased \$50,102.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2002 are not available.

Gallia-Vinton Educational Service Center
 Gallia County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003

Table 2
 Change in Net Assets

	2003
Revenues	
Program Revenues:	
Charges for Services	\$159,014
Total Program Revenues	159,014
General Revenues:	
Grants and Entitlements	304,277
Gifts and Donations	12,664
Investment Earnings	7,203
Other	6,180
Total General Revenues	330,324
 Total Revenues	 489,338
 Program Expenses	
Support Services	
Pupil	183,923
Instructional Staff	12,566
Board of Education	49,348
Administration	152,945
Fiscal	18,946
Operation and Maintenance of Plant	1,605
Pupil Transportation	1,095
Central	18,808
Total Expenses	439,236
 Net Assets at Beginning of Year	 195,884
Increase (Decrease) in Net Assets	50,102
Net Assets at End of Year	\$245,986

Governmental Activities

Charges for services and sales comprised 32 percent of revenue for governmental activities of the Gallia-Vinton Educational Service Center for fiscal year 2003.

As indicated by governmental program expenses, support services for the benefit of the pupils is emphasized. Support services for pupils comprised 42 percent of governmental program expenses with support services for administration comprising 35 percent of governmental expenses.

Gallia-Vinton Educational Service Center
 Gallia County, Ohio
 Management's 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 and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2003	
	Total Cost of Services	Net Cost of Services
Support Services	439,236	(280,222)
Total Expenses	\$439,236	(\$280,222)

THE EDUCATIONAL SERVICE CENTER'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$489,338 and expenditures of \$425,716. The net change in fund balance for the year was most significant in the General fund.

The fund balance of the General Fund decreased by \$7,719. This decrease was primarily due to the Educational Service Center receiving less in State grant revenue in the current year than in the prior year.

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's 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 \$7,688 invested in its capital assets. Table 4 shows the fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

Governmental Activities

	2003	2002
Furniture and Equipment	\$7,688	\$720
Totals	\$7,688	\$720

Changes in capital assets from the prior year resulted from the addition of a computer and copier. See Note 6 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2003, the Educational Service Center did not have any outstanding debt obligations.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Educational Service Center's financial condition 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 Cindy Hunt, Treasurer, Gallia-Vinton Educational Service Center, P.O. Box 178, Rio Grande, Ohio 45674

Gallia Vinton Educational Service Center
Statement of Net Assets
June 30, 2003

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$311,252
Materials and Supplies Inventory	3,550
Prepaid Items	4,469
Noncurrent Assets:	
Depreciable Capital Assets, net	7,688
<i>Total Assets</i>	326,959
 LIABILITIES:	
Current Liabilities:	
Accounts Payable	190
Accrued Wages and Benefits	22,648
Intergovernmental Payable	4,694
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due in More Than One Year	53,441
<i>Total Liabilities</i>	80,973
 NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	7,688
Restricted for Capital Projects	3,133
Restricted for Other Purposes	85,942
Unrestricted	149,223
<i>Total Net Assets</i>	\$245,986

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

Gallia Vinton Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Expenses	Program Revenues Charges for Services and Sales	Total
Governmental Activities:			
Support Services:			
Pupils	\$183,923	\$68,909	(\$115,014)
Instructional Staff	12,566	1,432	(11,134)
Board of Education	49,348	18,489	(30,859)
Administration	152,945	58,040	(94,905)
Fiscal	18,946	7,098	(11,848)
Operation and Maintenance of Plant	1,605	601	(1,004)
Pupil Transportation	1,095	410	(685)
Central	18,808	4,035	(14,773)
<i>Total Governmental Activities</i>	439,236	159,014	(280,222)
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			304,277
Gifts and Donations not Restricted to Specific Programs			12,664
Investment Earnings			7,203
Miscellaneous			6,180
<i>Total General Revenues</i>			330,324
Change in Net Assets			50,102
<i>Net Assets Beginning of Year</i>			195,884
<i>Net Assets End of Year</i>			\$245,986

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

Gallia Vinton Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$222,177	\$89,075	\$311,252
Materials and Supplies Inventory	3,550	0	3,550
Prepaid Items	4,469	0	4,469
	<hr/>	<hr/>	<hr/>
<i>Total Assets</i>	<u>230,196</u>	<u>89,075</u>	<u>319,271</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	190	0	190
Accrued Wages and Benefits	22,648	0	22,648
Intergovernmental Payable	3,500	0	3,500
	<hr/>	<hr/>	<hr/>
<i>Total Liabilities</i>	<u>26,338</u>	<u>0</u>	<u>26,338</u>
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	3,861	18,065	21,926
Unreserved, Undesignated, Reported in:			
General Fund	199,997	0	199,997
Special Revenue Funds	0	71,010	71,010
	<hr/>	<hr/>	<hr/>
<i>Total Fund Balances</i>	<u>203,858</u>	<u>89,075</u>	<u>292,933</u>
 <i>Total Liabilities and Fund Balances</i>	 <u>\$230,196</u>	 <u>\$89,075</u>	 <u>\$319,271</u>

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

Gallia-Vinton Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2003

Total Governmental Fund Balances		\$292,933
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,688
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(1,194)
Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(53,441)	
Total		(53,441)
Net Assets of Governmental Activities		\$ 245,986

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

Gallia Vinton Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Intergovernmental	\$211,154	\$93,123	\$304,277
Interest	7,203	0	7,203
Gifts and Donations	12,664	0	12,664
Customer Sales and Services	159,014	0	159,014
Miscellaneous	<u>6,180</u>	<u>0</u>	<u>6,180</u>
<i>Total Revenues</i>	<u>396,215</u>	<u>93,123</u>	<u>489,338</u>
EXPENDITURES:			
Current:			
Support Services:			
Pupils	180,657	0	180,657
Instructional Staff	3,862	8,745	12,607
Board of Education	50,098	0	50,098
Administration	135,888	5,000	140,888
Fiscal	19,958	0	19,958
Operation and Maintenance of Plant	1,605	0	1,605
Pupil Transportation	1,095	0	1,095
Central	<u>10,771</u>	<u>8,037</u>	<u>18,808</u>
<i>Total Expenditures</i>	<u>403,934</u>	<u>21,782</u>	<u>425,716</u>
Net Changes in Fund Balance	(7,719)	71,341	63,622
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>211,577</u>	<u>17,734</u>	<u>229,311</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>\$203,858</u></u>	<u><u>\$89,075</u></u>	<u><u>\$292,933</u></u>

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

Gallia-Vinton Educational Service Center
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 \$63,622

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 estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	8,387	
Current Year Depreciation	(1,419)	
Total		6,968

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.

Increase in Compensated Absences	(22,266)	
Decrease in Intergovernmental Payable	1,778	
Total		(20,488)

Net Change in Net Assets of Governmental Activities \$50,102

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

Gallia Vinton Educational Service Center
Schedule 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>		<u>Actual</u>	Variance with Final Budget: Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
REVENUES:				
Intergovernmental	\$214,474	\$214,474	\$211,154	(\$3,320)
Interest	7,500	7,500	7,203	(297)
Gifts and Donations	12,664	12,664	12,664	0
Customer Sales and Services	138,306	138,306	159,014	20,708
Miscellaneous	6,080	6,080	6,180	100
Total Revenues	<u>379,024</u>	<u>379,024</u>	<u>396,215</u>	<u>17,191</u>
EXPENDITURES:				
Current:				
Support Services:				
Pupils	185,299	185,299	181,278	4,021
Instructional Staff	3,862	3,862	3,862	0
Board of Education	71,638	71,638	57,918	13,720
Administration	163,000	163,000	136,283	26,717
Fiscal	31,000	31,000	20,172	10,828
Business	0	0	0	0
Operation and Maintenance of Plant	4,000	4,000	1,605	2,395
Pupil Transportation	2,000	2,000	1,095	905
Central	25,000	25,000	11,207	13,793
Total Expenditures	<u>485,799</u>	<u>485,799</u>	<u>413,420</u>	<u>72,379</u>
Excess of Revenues Over (Under) Expenditures	<u>(106,775)</u>	<u>(106,775)</u>	<u>(17,205)</u>	<u>89,570</u>
Net Change in Fund Balances	(106,775)	(106,775)	(17,205)	89,570
Fund Balance (Deficit) at Beginning of Year	234,873	234,873	234,873	0
Prior Year Encumbrances Appropriated	648	648	648	0
Fund Balance (Deficit) at End of Year	<u>\$128,746</u>	<u>\$128,746</u>	<u>\$218,316</u>	<u>\$89,570</u>

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

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GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE ENTITY

Description of the Educational Service Center:

The Gallia-Vinton Educational Service Center (the Educational Service Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a County Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The Educational Service Center is an administrative entity providing supervision and certain other services to the local school districts located in Gallia and Vinton Counties. It currently operates under a Governing Board form of government consisting of three (3) members elected from Vinton County and four (4) members elected from Gallia County.

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

Reporting Entity:

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations for which the Educational Service Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2003, the Educational Service Center had no component units.

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

Southeast Ohio Voluntary Education Cooperative (SEOVEC)
Gallia-Jackson-Vinton Joint Vocational School District
Gallia County Local School District

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

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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Fund Accounting

The Educational Service Center's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Center functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 following is the Educational Service Center's major governmental fund:

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

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

B. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide 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.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The statement of net assets presents the financial condition of governmental activities of the Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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. Revenues which are not classified as program revenues are presented as general revenues of the Center. 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 year, the Educational Service Center segregates transactions related to certain 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 Center at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting:

Government-wide Financial Statements - The government-wide financial statements are prepared using the 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 presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements - All governmental funds are accounted for using a 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 reports on 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 statements for governmental funds.

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. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. "Measurable" means the amount of the transaction can be determined, and "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 60 days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements that specify the year when the resources are required to be used or the fiscal year when use is first permitted. Eligibility requirements also include matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 year-end: interest, tuition, grants, and student fees.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The focus of modified accrual basis 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, except for the costs of accumulated unpaid vacation, personal leave and sick leave. They are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Budgetary Data

Upon review by the Educational Service Center's Governing Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures, which is the legal level of budgetary control.

Encumbrances:

Encumbrance accounting is utilized by the Educational Service Center for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures/expenses on a non-GAAP budgetary basis in the Statement of Revenues, Expenditures, and Changes in Fund Balance–Budget and Actual (Budget Basis) for the General Fund.

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.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

Cash received by the Educational Service Center is deposited into one of several bank accounts with individual fund balance integrity maintained. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All investment earnings accrue to the General Fund except those specifically related to those funds deemed appropriate according to Board of Education policy. Interest earned amounted to \$7,203 which was recorded in the General Fund. The fund's interest is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. During fiscal year 2003, the Center did not have any investments.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption.

G. 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 by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets and Depreciation

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets result 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 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 \$1,000. 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 reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Furniture and Equipment	5-10 years

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate its employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and the employees the Service Center has identified as probable of receiving payment in the future. The Service Center records an accrual for sick leave for all employees with six years or more of service. The accrual amount is based upon accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the Educational Service Center's severance policy.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employee will be paid.

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, once incurred, that are paid in full and in a timely manner from current financial resources, are reported as obligations of the funds. However, compensated absences, contractually required pension contributions and special termination benefits 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 in the current year.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements 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.

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

L. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

Changes in Accounting Principles

For the Fiscal year 2003, the Educational Service Center has presented for the first time financial statements in accordance with generally accepted accounting principles (GAAP). In conjunction with this presentation, the Center has changed its basis of accounting from the cash basis to the GAAP basis. The Center also early 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”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 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 present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The restated fund balance amount for government programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The implementation of these Statements and the change from cash to GAAP basis reporting required that certain adjustments be recorded to the June 30, 2002, fund balances of major and non-major funds of the Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Non-major	Total
Fund Balances, June 30, 2002	\$235,522	\$17,734	\$253,256
Adjustments necessary to comply with GAAP	(23,945)	0	(23,945)
Restated Fund Balances, June 30, 2002	\$211,577	\$17,734	\$229,311
Adjustments necessary to comply with GASB 34			(33,427)
Government Activities Net Assets, June 30, 2002			\$195,884

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the Gallia-Vinton Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) for the General 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 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 (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2003

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	(\$7,719)
Adjustments:	
Expenditure Accruals	(5,625)
Encumbrances	(3,861)
Budget Basis	(\$17,205)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

Deposits:

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$311,252 and the bank balance was \$320,142. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Cash and cash equivalents are defined to include investments included within the Service Center's cash management pool and investments with a maturity date of three months or less.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 6 - CAPITAL ASSETS

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

	Ending Balance 06/30/02	Additions	Deletions	Ending Balance 06/30/03
Governmental Activities				
Capital Assets Being Depreciated				
Furniture and Equipment	\$4,453	\$8,387	\$0	\$12,840
Total Capital Assets, Being Depreciated	4,453	8,387	0	12,840
Less Accumulated Depreciation:				
Furniture and Equipment	(3,733)	(1,419)	0	(5,152)
Total Accumulated Depreciation	(3,733)	(1,419)	0	(5,152)
Total Capital Assets Being Depreciated, Net	720	6,968	0	7,688
Governmental Activities Capital Assets, Net	\$720	\$6,968	\$0	\$7,688

*Depreciation expense was charged to governmental functions as follows:

Support Services:	
Administration	\$1,419
Total Depreciation Expense	\$1,419

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2003, the Educational Service Center contracted with Nationwide Insurance Company for property insurance coverage. The policies include a \$500 deductible.

Professional and general liability is protected by the Nationwide Insurance Company with a \$1,000,000 single occurrence limit with a \$5,000,000 aggregate and no deductible.

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 salaries. This rate is calculated based on accident history and administrative costs.

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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 7 - RISK MANAGEMENT (Continued)

B. Workers Compensation

For the fiscal year 2003, the Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participant's is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participant's that can meet the GRP's selection criteria. The firm of GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The Educational Service Center provides health and major medical and prescription drug insurance for all eligible employees through United Health Care. The Center pays monthly premiums of up to \$913.20 for family coverage and up to \$334.38 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to some employees through Medical Life Insurance Group in the amount of \$25,000 for classified employees, \$20,000 for certified employees, and twice the salary amount for each administrator.

Dental coverage is provided through Anthem Insurance. The Educational Service Center pays 100% of the premium for certified and non-certified employees. Monthly premiums for the dental coverage are \$44.74 monthly for family and \$16.57 for single coverage.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. 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 amounts, 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 \$6,725, \$4,807, and \$11,113, respectively; 92.4 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 8 - DEFINED BENEFIT PENSION PLANS – (Continued)

State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 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 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 STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$24,821, \$18,525, and \$15,145, respectively; 95 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 \$23,560 made by the Educational Service Center and \$16,488 made by plan members.

NOTE 9 - POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 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 \$29,506 during the 2003 fiscal year.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2003

NOTE 9 - POST-EMPLOYMENT BENEFITS – (Continued)

STRS 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 million. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients. For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established as \$14,500. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$12,568 during the 2003 fiscal year.

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 costs of \$303.6 million. SERS had approximately 50,000 participants currently receiving health care benefits.

NOTE 10 - OTHER EMPLOYEE BENEFITS

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 260 days per year earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 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 and may accumulate up to 15 days per year. Upon retirement, after six (6) years of service, any employee will receive payment for one-third of accrued sick leave up to a maximum of fifty (50) days.

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Balance Outstanding <u>At June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>At June 30, 2003</u>
Compensated Absences	\$31,175	\$22,266	\$0	\$53,441

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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS & PUBLIC ENTITY RISK POOL

A. Jointly Governed Organizations

Southeast Ohio Voluntary Education Cooperative - The Southeast Ohio Voluntary Education Cooperative (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 districts and 8 educational service centers. SEOVEC is governed by a governing board, which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Gallia-Jackson-Vinton Joint Vocational School District - Gallia-Jackson-Vinton Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board comprised of eleven members appointed by the participating schools, which possesses its own budgeting and taxing authority. To obtain financial information write to the Gallia, Jackson, Vinton Joint Vocational School, Donalyn Smith, who serves as Treasurer, at 351 Buckeye Hills Road, Rio Grande, Ohio 45674.

Gallia County Local School District - Gallia County Local School District is a jointly governed organization providing educational services as authorized by State statute and/or federal guidelines. The School District is governed by a locally elected Board of Education comprised of five members. The board controls the financial activity of the School District's eight (8) instructional support facilities and reports to the Ohio Department of Education and the Auditor of State of Ohio. To obtain financial information write to the Gallia County Local School District, Sandra Foster, who serves as Treasurer, at 230 Shawnee Lane, Gallipolis, Ohio 45631.

B. Public Entity Risk Pool

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

NOTE 13 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed the earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2003

NOTE 14 - CONTINGENCIES

Grants:

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

Litigation:

The Gallia-Vinton Educational Service Center currently has a pending lawsuit. However, the Center management believes that this lawsuit will not have a material effect on their financial statements.

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**Auditor of State
Betty Montgomery**

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

Gallia-Vinton Educational Service Center
Gallia County
P.O. Box 178
Rio Grande, Ohio 45674

We have audited the basic financial statements of Gallia-Vinton Educational Service Center, Gallia County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated February 4, 2004, wherein we noted the Educational Service Center has adopted Governmental Accounting Statements No. 34, 37 and 38 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, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated February 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 basic 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.

This report is intended for the information and use of management and the Governing Board, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 4, 2004

**GALLIA-VINTON EDUCATIONAL SERVICE CENTER
GALLIA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i>
2002-001	Ohio Admin. Code Section 117-2-03(B) and Ohio Rev. Code Section 117.38 requires the Educational Service Center to file its annual financial report pursuant to accounting principles generally accepted in the United States of America. The Service Center filed on the cash-basis for fiscal year 2002.	Yes	Corrected

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**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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER

GALLIA 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 16, 2004**