



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Guernsey/Monroe/Noble Educational Service Center  
Guernsey County  
National City Bank Building, 3<sup>rd</sup> Floor  
749 Wheeling Avenue  
Cambridge, Ohio 43725

To the Board of Education:

We have audited the accompanying financial statements of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion 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 opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2002, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

November 22, 2002

**COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND  
CASH BALANCES  
ALL FUND TYPES  
AS OF JUNE 30, 2002**

Cash and Cash Equivalents	\$	283,899
Investments:		
Repurchase Agreement		815,000
<b>Total</b>	<b>\$</b>	<b>1,098,899</b>

**CASH BALANCES BY FUND TYPE**

<b>Governmental Funds:</b>		
General	\$	437,481
Special Revenue		222,376
Capital Projects		6,595
<b>Proprietary Funds:</b>		
Internal Service		164,898
<b>Fiduciary Funds:</b>		
Expendable Trust		266,130
Agency		1,419
<b>Total</b>	<b>\$</b>	<b>1,098,899</b>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
<b>Receipts:</b>					
Receipts from Local Sources					
Tuition	\$ 2,554	\$ 2,380	\$	\$	\$ 4,934
Earnings on Investments	17,036	3		6,611	23,650
Miscellaneous	1,799,445	91,982			1,891,427
Receipts from State Sources					
Unrestricted Grants-In-Aid	1,992,822	70,124			2,062,946
Restricted Grants-In-Aid		120,484	6,595		127,079
Receipts from Federal Sources					
Restricted Grants-In-Aid	237,967	218,210			456,177
<b>Total Receipts</b>	<u>4,049,824</u>	<u>503,183</u>	<u>6,595</u>	<u>6,611</u>	<u>4,566,213</u>
<b>Disbursements:</b>					
Instruction:					
Regular		134,580			134,580
Special	1,205,609	62,610			1,268,219
Vocational Education	35,342				35,342
Adult/Continuing	28,424				28,424
Supporting Services:					
Pupils	1,077,941	50,814			1,128,755
Instructional Staff	1,282,128	183,737			1,465,865
Board of Education	27,476	950			28,426
Administration	458,670	107,572			566,242
Fiscal Services	156,571	6,498			163,069
Operation and Maintenance - Plant	14,147				14,147
Pupil Transportation	8,657				8,657
Central		3,909			3,909
Operation of Noninstructional Services:					
Community		2,625		13,455	16,080
Extracurricular Activities					
Sports Oriented	68,140				68,140
<b>Total Disbursements</b>	<u>4,363,105</u>	<u>553,295</u>	<u>0</u>	<u>13,455</u>	<u>4,929,855</u>
Excess of Receipts Over/(Under) Disbursements	<u>(313,281)</u>	<u>(50,112)</u>	<u>6,595</u>	<u>(6,844)</u>	<u>(363,642)</u>
<b>Other Financing Sources:</b>					
Refund of Prior Year Expenditures	293	450		90	833
<b>Total Other Financing Sources</b>	<u>293</u>	<u>450</u>	<u>0</u>	<u>90</u>	<u>833</u>
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements	(312,988)	(49,662)	6,595	(6,754)	(362,809)
Fund Cash Balances, July 1	750,469	272,038	0	272,884	1,295,391
<b>Fund Cash Balances, June 30</b>	<u>\$ 437,481</u>	<u>\$ 222,376</u>	<u>\$ 6,595</u>	<u>\$ 266,130</u>	<u>\$ 932,582</u>
Reserve for Encumbrances	<u>\$ 10,887</u>	<u>\$ 43,230</u>	<u>\$ 3,297</u>	<u>\$ 0</u>	<u>\$ 57,414</u>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
CASH BALANCES  
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	<b>Proprietary Fund Types</b>	<b>Fiduciary Fund Type</b>	<b>Totals (Memorandum Only)</b>
	<b>Internal Service</b>	<b>Agency</b>	
<b>Operating Cash Disbursements:</b>			
Employees' Retirement and Insurance	\$ 62,800	\$	\$ 62,800
Purchased Services	262,887		262,887
Supplies	525		525
Total Operating Cash Disbursements	326,212	0	326,212
Operating Income/(Loss)	(326,212)	0	(326,212)
<b>Non-Operating Cash Receipts:</b>			
Earnings on Investment	3,968		3,968
Miscellaneous	336,133		336,133
Total Non-Operating Cash Receipts	340,101	0	340,101
Net Income/(Loss)	13,889	0	13,889
Fund Cash Balances, July 1	151,009	1,419	152,428
<b>Fund Cash Balances, June 30</b>	<b>\$ 164,898</b>	<b>\$ 1,419</b>	<b>\$ 166,317</b>
Reserve for Encumbrances	\$ 100	\$0	\$ 100

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

<u><b>Fund Types/Funds</b></u>	<u><b>Budget</b></u>	<u><b>Actual</b></u>	<u><b>Variance Favorable (Unfavorable)</b></u>
<b>Governmental:</b>			
General	\$ 4,034,445	\$ 4,050,117	\$ 15,672
Special Revenue	414,389	503,633	89,244
Capital Projects	6,595	6,595	0
<b>Proprietary:</b>			
Internal Service	338,567	340,101	1,534
<b>Fiduciary:</b>			
Trust and Agency	<u>13,500</u>	<u>6,701</u>	<u>(6,799)</u>
<b>Totals (Memorandum Only)</b>	<u><b>\$ 4,807,496</b></u>	<u><b>\$ 4,907,147</b></u>	<u><b>\$ 99,651</b></u>

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES COMPARED  
WITH EXPENDITURE AUTHORITY  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Appropriations</u>	<u>Actual Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental:</b>			
General	\$ 4,718,467	\$ 4,373,992	\$ 344,475
Special Revenue	711,035	596,525	114,510
Capital Projects	6,595	3,297	3,298
<b>Proprietary:</b>			
Internal Service	351,326	326,312	25,014
<b>Fiduciary:</b>			
Trust and Agency	15,401	13,455	1,946
<b>Totals (Memorandum Only)</b>	<b><u>\$ 5,802,824</u></b>	<b><u>\$ 5,313,581</u></b>	<b><u>\$ 489,243</u></b>

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

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**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. DESCRIPTION OF THE ENTITY**

The Guernsey/Monroe/Noble 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 combined Educational Service Center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Cambridge City, Caldwell Exempted Village, East Guernsey Local, Noble Local, Rolling Hills Local and Switzerland of Ohio Local School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large. Members are elected to staggered four year terms. As of June 30, 2002, the Educational Service Center employed 72 certificated and 57 non-certificated employees.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies which are not legally separate from the Educational Service Center. For Guernsey/Monroe/Noble Educational Service Center, this includes general operations and student related activities. The Educational Service Center does not have any component units.

The Educational Service Center is associated with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) and East Central Ohio Special Education Regional Resource Center, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool, and the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which is defined as a claims servicing pool. These organizations are presented in Notes 9 and 10.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Educational Service Center chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Pooled Cash and Investments**

The Educational Service Center maintains a cash and investment pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments and Fund Cash Balances" as "Cash Balances by Fund Type."

Certificates of deposit and repurchase agreements are valued at cost. For purposes of financial statement presentation, certificates of deposit are considered cash equivalents.

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

**C. Fund Accounting**

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all 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.

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

**Governmental Fund Types**

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

**General Fund**

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

**Special Revenue Funds**

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fund Accounting (Continued)**

**Capital Projects Funds**

Capital Projects Funds are used to account for financial resources to be used from the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**Proprietary Fund Type**

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

**Internal Service Fund**

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

**Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

**D. Budgetary Process**

The budgetary process entails the preparation of budgetary documents within an established timetable.

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

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

**1. Appropriations**

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. When necessary, the school board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The school board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. 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 Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

**2. 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 in order to reserve that portion of the applicable appropriation.

**3. 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.

**E. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**F. Accumulated Unpaid Vacation and Sick Leave**

Accumulated unpaid vacation and sick leave are not accrued under the cash basis of accounting described in Note 1. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the value of these benefits as of June 30, 2002.

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At June 30, 2002, the Educational Service Center's Internal Service Fund had a balance of \$158,894 with OME-RESA, a jointly governed organization (See Note 9). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

**A. Deposits**

At June 30, 2002, the carrying amount of the Educational Service Center's deposits was \$125,005 and the bank balance was \$434,306. Of the bank balances as of June 30, 2002, \$200,000 was covered by federal deposit insurance and \$234,306 was uninsured and uncollateralized. Although the State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

**B. Investments**

The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**B. Investments (Continued)**

For the year ended June 30, 2002, the classification was as follows:

	Category 3	Carrying Value	Market Value
Repurchase Agreement	<u>\$815,000</u>	<u>\$815,000</u>	<u>\$815,000</u>
Total	<u>\$815,000</u>	<u>\$815,000</u>	<u>\$815,000</u>

**4. STATE FUNDING**

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37 for fiscal year 2002. This amount is provided from State resources.

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

**5. RISK MANAGEMENT**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Professional and general liability is provided by the Nationwide Insurance Company with a \$1,000,000 single occurrence limit with \$3,000,000 aggregate and no deductible. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**C. Employee Medical Benefits**

The Educational Service Center is self insured for health, prescription, vision, and dental insurance. The Educational Service Center is a member of the OME-RESA claims servicing pool. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. These premium costs are recovered by costs from charges to other funds based on an actuarially determined cost per employee. The claims liability of \$72,665 below is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, be reported.

A comparison of Self Insurance cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2002</u>	<u>2001</u>
Cash and investments	\$158,894	\$147,135
Actuarial liabilities	\$72,665	\$47,862

**6. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**6. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The required contributions for the Educational Service Center's pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$188,415, \$125,315, and \$75,367, respectively.

**B. State Teachers Retirement System**

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

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$405,757, \$323,650, and \$284,608, respectively.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, all Board Members of the Educational Service Center have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**7. POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-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 funded on a pay-as-you-go-basis.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**7. POSTEMPLOYMENT BENEFITS (Continued)**

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$130,422 for fiscal year 2002.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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 benefit, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$131,890.

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

**8. OTHER EMPLOYEE BENEFITS**

**Life Insurance**

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Self-Funded Plans, Inc., located in Cleveland, Ohio.

**9. JOINTLY GOVERNED ORGANIZATIONS**

**Ohio Mid Eastern Regional Educational Service Agency (OME-RESA)**

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information system, and cooperative purchasing services to member districts. OME-RESA possesses its own budgeting authority. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**9. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**East Central Ohio Special Education Regional Resource Center (ECO-SERRC)**

ECO-SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The ECO-SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO-SERRC. ECO-SERRC is not financially dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for ECO-SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

**10. PUBLIC ENTITY POOLS**

**Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan**

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, 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.

**Claims Servicing Pool**

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. The Plan's business affairs are conducted by a nine member Board of Directors elected from OME-RESA's assembly. Each participant is a member of the assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**12. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as a basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Indicators of Success Project	123281 6B-EC	84.027	\$ 8,064	\$ 8,064
Special Education - Preschool Grant	123281 PG-S1	84.173	53,823	52,441
Education for Homeless Children and Youth	123281 HC-S1	84.196	56,930	41,098
Grants to Local Educational Agencies (ESEA Title I)	123281 C1-SS	84.010	<u>8,000</u>	<u>8,000</u>
Total U.S. Department of Education			<u>126,817</u>	<u>109,603</u>
<b><u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>				
<i>Passed Through Department of Job and Family Services of Guernsey and Noble County and Guernsey County Family Services Council:</i>				
Temporary Assistance for Needy Families	N/A	93.558	226,317	226,317
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program - Community Alternative Funding System - Title XIX	N/A	93.778	<u>237,967</u>	<u>237,967</u>
Total U.S. Department of Job and Family Services			<u>464,284</u>	<u>464,284</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$591,101</u></b>	<b><u>\$573,887</u></b>

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) GRANT PROGRAM MONIES**

TANF Grant (CFDA # 93.558) monies are passed-through the Guernsey and Noble County Department of Jobs and Family Services to the Educational Service Center.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Athens Mall Suite B  
Athens, Ohio 45701  
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800-441-1389  
Facsimile 740-594-2110  
www.auditor.state.oh.us

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

Guernsey/Monroe/Noble Educational Service Center  
Guernsey County  
National City Bank Building, 3<sup>rd</sup> Floor  
749 Wheeling Avenue  
Cambridge, Ohio 43725

To the Board of Education:

We have audited the financial statements of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 22, 2002, which noted the Educational Service Center prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-11030-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated November 22, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated November 22, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

**Jim Petro**  
Auditor of State

November 22, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Guernsey/Monroe/Noble Educational Service Center  
Guernsey County  
National City Bank Building, 3<sup>rd</sup> Floor  
749 Wheeling Avenue  
Cambridge, Ohio 43725

To the Board of Education:

**Compliance**

We have audited the compliance of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Educational Service Center's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

**Internal Control Over Compliance**

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

November 22, 2002

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

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

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

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

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

**FINDING NUMBER 2002-11030-001**

**Noncompliance Citation**

Ohio Administrative Code § 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2002. However, the Educational Service Center prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, can not be determined at this time. The Educational Service Center can be fined and various other administrative remedies may be taken against the Educational Service Center.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Educational Service Center in a Fiscal Caution Status. This status requires the Educational Service Center to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education.

We recommend that the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with generally accepted accounting principles.

**3. FINDINGS FOR FEDERAL AWARDS**

There were no findings related to federal awards.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING  
OMB CIRCULAR A-133 §.315(b)  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <b><i>Explain:</i></b>
2001-11030-001	Ohio Admin. Code Section 117-2-03 for not reporting annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected; the noncompliance citation is repeated for the fiscal year ended June 30, 2002 (Finding Number 2002-11030-001).

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER  
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 §.315(c)  
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-11030-001	The Board is considering filing financial statements in accordance with generally accepted accounting principles for fiscal year 2003.	N/A	Mark Lucas, Treasurer



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER**

**GUERNSEY 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 7, 2003**