

Pickaway County Educational Service Center

Pickaway County

Single Audit

July 1 , 2002 Through June 30, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639 E-Mail: mbalcpa@bright.net



**Auditor of State
Betty Montgomery**

Members of the Board
Pickaway County Educational Service Center
1080 US Highway 22 West
Circleville, Ohio 43113

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 16, 2003

This Page is Intentionally Left Blank.

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
PICKAWAY COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	4-5
Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Type	6
Statement of Cash Flows - Proprietary Fund Type	7
Notes to the General-Purpose Financial Statements	8-25
Schedule of Federal Awards Expenditures	27
Notes to Schedule of Federal Awards Expenditures	28
Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	29-30
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133	31-32
Schedule of Findings & Questioned Costs OMB Circular A-133 Section .505	33-34

This Page is Intentionally Left Blank.

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639 E-Mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board

Pickaway County Educational Service Center
1080 U.S. Highway 22 West
Circleville, Ohio 43113

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003 on our consideration of the Pickaway County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

BALESTRA, HARR & SCHERER, CPAs, Inc.

BALESTRA, HARR & SCHERER, CPAs, Inc.

October 24, 2003

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

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals
	General	Special Revenue	Internal Service	Agency	General Fixed Assets	General Long Term Debt	(Memorandum) (Only)
Assets and Other Debits:							
Equity in Pooled Cash and Cash Equivalents	\$ 687,886	79,922	54,631	1,747	0	0	\$ 824,186
Intergovernmental Receivables	18,792	31,365	22,142	0	0	0	72,299
Due from Other Funds	0	0	0	13,719	0	0	13,719
Accounts Receivable	8,275	4,482	0	0	0	0	12,757
Interfund Receivable	22,510	0	0	0	0	0	22,510
Property, Plant, and Equipment, net where applicable	0	0	5,050	0	349,429	0	354,479
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	191,276	191,276
Total Assets and Other Debits	\$ 737,463	115,769	81,823	15,466	349,429	191,276	\$ 1,491,226
Liabilities:							
Intergovernmental Payables	\$ 744	190	111	15,466	0	5,039	\$ 21,550
Due to Other Funds	10,259	1,956	1,504	0	0	0	13,719
Accounts Payable	3,066	16,079	221	0	0	0	19,366
Interfund Payable	0	22,510	0	0	0	0	22,510
Accrued Salaries and Benefits	80,112	13,568	10,874	0	0	0	104,554
Compensated Absences Payable	40,937	5,561	4,381	0	0	186,237	237,116
Total Liabilities	135,118	59,864	17,091	15,466	0	191,276	418,815
Fund Equity and Other Credits:							
Investment in General Fixed Assets	0	0	0	0	349,429	0	349,429
Retained Earnings	0	0	64,732	0	0	0	64,732
Fund Balances:							
Reserved for Encumbrances	2,161	2,038	0	0	0	0	4,199
Unreserved Fund Balance	600,184	53,867	0	0	0	0	654,051
Total Fund Balances	602,345	55,905	0	0	0	0	658,250
Total Fund Balances/Retained Earnings	602,345	55,905	64,732	0	349,429	0	1,072,411
Total Liabilities, Fund Equity, and Other Credits	\$ 737,463	115,769	81,823	15,466	349,429	191,276	\$ 1,491,226

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 All Governmental Fund Types
 Year Ended June 30, 2003

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum) (Only)
REVENUES:			
Revenue from Local Sources			
Tuition	\$ 1,600	0	\$ 1,600
Earnings on Investments	8,678	0	8,678
Program Services	1,291,601	54,990	1,346,591
Miscellaneous	7,381	24,748	32,129
Revenue from Intermediate Sources			
Revenue for/on Behalf of District	14,424	0	14,424
Revenue from State Sources			
Unrestricted Grants-in-Aid	513,522	19,363	532,885
Restricted Grants-in-Aid	0	281,935	281,935
Revenue from Federal Sources			
Unrestricted Grants-in-Aid	119,370	0	119,370
Restricted Grants-in-Aid	0	225,412	225,412
Total Revenues	<u>1,956,576</u>	<u>606,448</u>	<u>2,563,024</u>
EXPENDITURES:			
Instruction			
Regular	10,544	191,187	201,731
Special	70,967	3,825	74,792
Adult/Continuing	465	87,086	87,551
Supporting Services			
Pupil	937,613	52,674	990,287
Instructional staff	515,439	106,613	622,052
Board of Education	17,191	0	17,191
Administration	242,605	23,937	266,542
Fiscal	80,714	14,086	94,800
Operation & Maintenance of Plant	36,994	0	36,994
Business	8,886	2,334	11,220
Central	930	153,328	154,258
Total Expenditures	<u>1,922,348</u>	<u>635,070</u>	<u>2,557,418</u>
Excess of Revenues			
Over (Under) Expenditures	34,228	(28,622)	5,606
Other Financing Sources and (Uses):			
Transfers-In	0	2,000	2,000
Refund of Prior Years Expenditures	2,836	0	2,836
Transfers-Out	(2,000)	0	(2,000)
Net Other Financing Sources	<u>836</u>	<u>2,000</u>	<u>2,836</u>
Excess of Revenues and Other Financing Sources			
Over (Under) Expenditures and Other Financing Uses	35,064	(26,622)	8,442
Fund Balance, Beginning of Year	<u>567,281</u>	<u>82,527</u>	<u>649,808</u>
Fund Balance, End of Year	<u>\$ 602,345</u>	<u>\$ 55,905</u>	<u>\$ 658,250</u>

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types
 Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
Revenues:						
Earnings on Investment	\$ 20,000	9,390	(10,610)	0	0	\$ 0
Tuition	1,144,800	1,107,827	(36,973)	0	0	0
Miscellaneous	222,136	217,917	(4,219)	100,832	82,366	(18,466)
Revenue for/on Behalf of District	14,424	14,424	0	0	0	0
State Unrestricted Grants-in-Aid	514,196	513,354	(842)	19,363	19,363	0
State Restricted Grants-in-Aid	0	0	0	280,945	278,935	(2,010)
Federal Unrestricted Grants-in-Aid	140,792	140,792	0	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	245,717	200,261	(45,456)
Total Revenue	2,056,348	2,003,704	(52,644)	646,857	580,925	(65,932)
Expenditures:						
Regular Instruction	12,824	12,624	200	190,128	189,302	826
Special Instruction	71,968	70,543	1,425	16,722	3,137	13,585
Adult/Continuing Instruction	4,785	465	4,320	91,479	88,185	3,294
Support Services-Pupils	992,509	921,094	71,415	59,582	55,856	3,726
Support Services-Instructional Staff	548,684	516,180	32,504	133,481	108,249	25,232
Support Services-Board of Ed.	30,360	19,932	10,428	0	0	0
Support Services-Administration	817,618	243,161	574,457	26,937	23,937	3,000
Support Services-Pupil Transportation	0	0	0	500	30	470
Fiscal Services	89,072	79,993	9,079	13,329	13,096	233
Support Services-Business	10,296	10,296	0	3,000	2,334	666
Operation & Maintenance Of Plant	84,068	40,255	43,813	0	0	0
Support Services-Central	1,000	930	70	211,931	157,758	54,173
Total Expenditures	2,663,184	1,915,473	747,711	747,089	641,884	105,205
Excess of Revenues Over (Under) Expenditures	(606,836)	88,231	695,067	(100,232)	(60,959)	39,273
Other Financing Sources (Uses):						
Transfers-In	0	0	0	2,000	2,000	0
Advances-In	0	43,600	43,600	0	61,010	61,010
Refund of Prior Years Expenditures	2,757	2,757	0	0	0	0
Transfers-Out	0	(2,000)	(2,000)	0	0	0
Advances-Out	0	(61,010)	(61,010)	0	(43,600)	(43,600)
Total Other Financing Sources (Uses)	2,757	(16,653)	(19,410)	2,000	19,410	17,410
Excess of Revenues & Other Financing Sources						
Over (Under) Expenditures and Other Financing Uses	(604,079)	71,578	675,657	(98,232)	(41,549)	56,683
Fund Balance, Beginning of Year	564,416	564,416	0	93,623	93,623	0
Prior Year Carry Over Encumbrances	33,965	33,965	0	8,611	8,611	0
Fund Balance, End of Year	\$ (5,698)	669,959	675,657	4,002	60,685	\$ 56,683

(Continued)

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types - Continued
 Year Ended June 30, 2002

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Earnings on Investment	20,000	9,390	\$ (10,610)
Tuition	1,144,800	1,107,827	(36,973)
Miscellaneous	322,968	300,283	(22,685)
Revenue for/on Behalf of District	14,424	14,424	0
State Unrestricted Grants-in-Aid	533,559	532,717	(842)
State Restricted Grants-in-Aid	280,945	278,935	(2,010)
Federal Unrestricted Grants-in-Aid	140,792	140,792	0
Federal Restricted Grants-in-Aid	245,717	200,261	(45,456)
Total Revenue	<u>2,703,205</u>	<u>2,854,629</u>	<u>(118,576)</u>
Expenditures:			
Regular Instruction	202,952	201,926	1,026
Special Instruction	88,690	73,680	15,010
Adult/Continuing Instruction	96,264	88,650	7,614
Support Services-Pupils	1,052,091	976,950	75,141
Support Services-Instructional Staff	682,165	624,429	57,736
Support Services-Board of Education	30,360	19,932	10,428
Support Services-Administration	844,555	267,098	577,457
Support Services-Pupil Transportation	500	30	470
Fiscal Services	102,401	93,089	9,312
Support Services-Business	13,296	12,630	666
Operation & Maintenance Of Plant	84,068	40,255	43,813
Support Services-Central	212,931	158,688	54,243
Total Expenditures	<u>3,410,273</u>	<u>2,557,357</u>	<u>852,916</u>
Excess of Revenues Over (Under) Expenditures	(707,068)	297,272	734,340
Other Financing Sources (Uses):			
Transfers-In	2,000	2,000	0
Advances-In	0	104,610	104,610
Refund of Prior Years Expenditures	2,757	2,757	0
Transfers-Out	0	(2,000)	(2,000)
Advances-Out	0	(104,610)	(104,610)
Total Other Financing Sources (Uses):	<u>4,757</u>	<u>2,757</u>	<u>(2,000)</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(702,311)	300,029	732,340
Fund Balance, Beginning of Year	658,039	658,039	0
Prior Year Carry Over Encumbrances	42,576	42,576	0
Fund Balance, End of Year	<u>(1,696)</u>	<u>1,000,644</u>	<u>\$ 732,340</u>

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
Statement of Revenues, Expenses, and Changes in Retained Earnings
Proprietary Fund Type
Year Ended June 30, 2003

	Internal Service
Operating Revenues:	
Tuition	\$ 91,882
Total Operating Revenues	91,882
 Operating Expenses:	
Personal Services	60,750
Employee Benefits	22,968
Purchased Services	29,122
Supplies and Materials	1,857
Other Expenses	101
Depreciation Expense	1,008
Total Operating Expenses	115,806
Operating Loss	(23,924)
 Non-Operating Revenues:	
Restricted Grants in Aid	40,000
Total Non-Operating Revenues	40,000
 Net Gain	16,076
 Retained Earnings at Beginning of Year	48,656
Retained Earnings at End of Year	\$ 64,732

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
Statement of Cash Flows
Proprietary Fund Type
Year Ended June 30, 2003

	<u>Internal Service</u>
Cash Flows from Operating Activities	
Operating Loss	\$ (23,924)
Depreciation	1,008
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Intergovernmental Receivable	(4,362)
Increase (Decrease) in Liabilities:	
Due to Other Funds	(1,043)
Intergovernmental Payable	(111)
Accounts Payable	(294)
Accrued Wages and Benefits	(7,888)
Accrued Wages and Benefits	4,381
Net Adjustments	(9,317)
Net Cash Used by Operating Activities	(32,233)
Cash Flows from Noncapital Financing Activities:	
Operating Grants from Intermediate Sources	40,000
Net Cash Provided by Noncapital Financing Activities	40,000
Net Increase in Cash & Cash Equivalents	7,767
Cash and Cash Equivalents at Beginning of Year	46,864
Cash and Cash Equivalents at End of Year	\$ 54,631

See Accompanying Notes to the General-Purpose Financial Statements.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The 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 Center is a County School District as defined by Section 3313 of the Ohio Revised Code (ORC).

The Center is governed by a five member Governing Board elected by the citizens of Pickaway County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves three local school districts: Logan Elm Local, Teays Valley Local, and Westfall Local as provided by Senate Bill 140, ORC Section 3313.483. Circleville City School District and other school districts outside Pickaway County are served on an individual contract basis for various services.

The Center is located in Circleville, Ohio and is staffed by 33 certified and 17 classified personnel. The Pickaway County commissioners, as required by State statute, provide the offices for the use of the Center.

The accompanying general-purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable. This report includes all activities considered by management to be part of the Center by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The Center has no component units.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

B. Fund Accounting

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

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund - This fund 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 Center for any purpose provided it is expended or transferred according to the bylaws of the Center and the laws of the State of Ohio.

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

Proprietary Fund Types

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

Internal Service Funds - These funds account for the financing of services provided by one department or agency to other departments or agencies of the Center on a cost reimbursement basis. The Center currently has one Internal Service Fund.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the Center's fixed assets, except for those accounted for in the proprietary fund.

General Long-Term Debt Account Group - This account group is used to account for all of the Center's long-term obligations, except for those accounted for in the proprietary fund.

C. Measurement Focus/Basis of Accounting

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

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earning components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

Revenues-Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be

collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year end.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus/Basis of Accounting (continued)

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 fiscal year end: interest, tuition and grants.

Deferred Revenue

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

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

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

D. Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the Superintendent and the Treasurer of the Center prepares the SF-5 budget for the fiscal year commencing July 1 and certifies the budget to the State Board of Education, together with such other information the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions and travel costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Center.

Estimated Resources

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents management's estimate of the amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

D. Budget and Budgetary Accounting (continued)

Appropriations

An annual appropriation resolution is legally enacted by the Governing Board at the fund level, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the Center. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriation within a function must be approved by the Governing Board. The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. 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, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. Note 2 provides a reconciliation of the budgetary and GAAP basis of accounting.

Lapsing of Appropriations

At the close of each 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.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

E. Cash and Investments

Cash received by the Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." During the fiscal year all investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investments contracts, investments are reported at fair value. Fair value is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The Center has invested funds in STAR Ohio during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 2003 totaled \$8,678.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Taxes

A County Educational Service Center, itself, does not levy taxes. However, a County Educational Service Center Governing Board may serve as the taxing authority for a County school financing district as authorized by the Ohio Revised Code 135.01 (D). The Center does not currently serve as a taxing authority.

G. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed asset account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Center maintains a capitalization threshold of three hundred dollars.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment and furnishings in the proprietary fund type is computed using the straight-line method over an estimated useful life of the assets varying from eight to twenty years.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

H. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. At June 30, 2003 the Center had no long-term interfund loans.

I. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. The fair value of long term debt approximates the carrying amount.

K. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Pickaway County Educational Service Center
 Pickaway County
 Notes to the General-Purpose Financial Statements
 June 30, 2003

Note 1. Summary of Significant Accounting Policies (continued)

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 portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

M. Memorandum Only - Total Columns

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

N. Accounts Payable

The fair value and carrying value of trade accounts payable are approximately the same.

O. Use of Estimates in Preparation of Financial Statements

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

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types		
	General Fund	Special Revenue
GAAP Basis	\$35,064	(\$26,622)
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	47,128	(25,523)
Due to Expenditures:		
Net Adjustments to Expenditure Accruals	6,875	(6,814)
Due to Other Sources/Uses	(17,489)	17,410
Budget Basis	\$71,578	(\$41,549)

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 3. Cash and Investments

State statutes classify monies held by the 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 Center Treasury, in commercial accounts payable or withdraw able 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 pass book accounts.

Protection of the 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;

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 3. Cash 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. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year end, the carrying amount of the Center's deposits was \$292,996 and the bank balance was \$365,495. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$265,495 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Pickaway County Educational Service Center
 Pickaway County
 Notes to the General-Purpose Financial Statements
 June 30, 2003

Note 3. Cash and Investments (continued)

Investments: The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the Center's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Unclassified	Carrying Amount	Fair Value
STAR Ohio	\$ 531,190	\$ 531,190	\$ 531,190

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 824,186	\$ 0
Investments:		
STAROhio	(531,190)	531,190
GASB Statement No. 3	\$ 292,996	\$ 531,190

Pickaway County Educational Service Center
 Pickaway County
 Notes to the General-Purpose Financial Statements
 June 30, 2003

Note 4. Receivables

Receivables at June 30, 2003 consisted of tuition and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

<i>General Fund:</i>	
CAFS Subsidy	\$17,448
GED Subsidy	<u>1,344</u>
Total General Fund	18,792
<i>Special Revenue Funds:</i>	
EMIS Grant	3,000
Wellness Grant	21,051
ABLE Grant	<u>7,314</u>
Total Special Revenue	31,365
<i>Proprietary Funds</i>	
Internal Service	<u>22,142</u>
Grand Total	<u><u>\$72,299</u></u>

Note 5. Fixed Assets

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2003:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Furniture and Equipment	\$ 348,336	6,515	5,422	\$ 349,429

The following is a summary of the proprietary funds equipment at June 30, 2003:

Furniture and Equipment	\$ 10,087
Less: Accumulated Depreciation	<u>(5,037)</u>
Net Fixed Assets	<u><u>\$ 5,050</u></u>

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 6. Defined Benefit Pension Plans

A. School Employees Retirement System

The 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 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. 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 Center is required to contribute at an actuarially determined rate. The current rate for the Center is 14 percent of annual covered payroll. The maximum amount, by the SERS' Retirement Board. The Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$41,990, \$52,073, and \$72,262, respectively; 45 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$812 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial reports 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2002 and 2001 were \$210,087, \$199,546 and \$191,877.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 7. Post-employment Benefits

The 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.

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 June 30, 2003 and after, the STRS Board allocated employers contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$34,180 for fiscal year 2003.

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 \$3.256 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 fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premiums 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 employers' 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 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 2003, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target for the health care fund. The portion of the employer contributions that were used to fund postemployment benefits was \$111,805.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 8. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from Center Policy and State laws. Only personnel who are under a full year contract (240 days) are eligible for vacation time.

Vacation

Certified employees earn 20 days of vacation per year, depending upon length of service. Employees can accumulate a maximum vacation day balance of 30 days; employees with 25 or more years of service can accumulate 40 days. Accumulated, unused vacation time can be paid to employees upon termination of employment up to a maximum of 20 days.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
0 - 5	10
5+ - 10	15
10+ - 25	20
25 or more	25

Classified employees can accumulate a maximum vacation day balance of 30 days. Ten days of accumulated vacation days may be carried over into the next vacation year. Accumulated, unused vacation time can be paid to employees upon termination of employment up to a maximum of 20 days.

Severance

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 225 days.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 45 days.

Note 9. Risk Management

General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. The Center maintains business auto coverage for non-owned autos in the amount of \$1,000,000.

The Center maintains replacement cost insurance on building contents in the amount of \$300,000.

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

Pickaway County Educational Service Center
 Pickaway County
 Notes to the General-Purpose Financial Statements
 June 30, 2003

Note 9. Risk Management, (continued)

Workers Compensation-Public Entity Risk Pool

The 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 (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.

The intent of the GRP is to achieve the benefit of a reduced premium for the 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.

Health Insurance

The Center provides life insurance and accidental death and dismemberment insurance to its employees through the Metropolitan Educational Center insurance purchasing program. The Center has elected to provide employee medical/surgical benefits through Anthem, a fully funded program. Dental coverage is provided through Coresource.

Note 10. Long Term Obligations

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance
	July 1, 2002	Additions	Deletions	June 30, 2003
Intergovernmental Payable	\$ 6,265	5,039	6,265	\$ 5,039
Compensated Absences Payable	183,606	186,237	183,606	186,237
Total	\$ 189,871	191,276	189,871	\$ 191,276

Note 11. Contingencies

A. Litigation

The Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

B. Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Center at June 30, 2003.

Pickaway County Educational Service Center
 Pickaway County
 Notes to the General-Purpose Financial Statements
 June 30, 2003

Note 12. Interfund Activity

At June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable	Due To Other Funds	Due From Other Funds
General Fund	\$ 22,510		\$ 10,259	
Special Revenue Funds				
Family Literacy		\$ 1,000		
Day Reporting		500		
EMIS		2,010		
Wellness		17,000		
WIN		2,000		
Pass Challenge			1,956	
Internal Service Funds:				
Pass			1,504	
Agency Funds:				
Workers Comp				822
STRS Agency				12,086
Total All Funds	\$22,510	\$22,510	\$13,719	\$13,719

Note 13. Jointly Governed Organizations

Metropolitan Educational Council (MEC) - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Central Ohio Special Education Regional Resource Center (COSERRC)

The Pickaway County Educational Service Center passes a motion each year to become a member of COSERRC. The superintendent of the Center is appointed by the Pickaway County Educational Service Center to be the delegate to the Governing Board.

COSERRC provides special education services at a regional level, as determined by each of the participating local school districts. The Center has no ongoing financial interest or financial responsibility to COSERRC.

Pickaway-Ross Joint Vocational School District

The Pickaway County Educational Service Center is a distinct political subdivision of the State of Ohio. The Pickaway-Ross Joint Vocational School District has an eleven-member board of education. The Center has three board members as representatives to the Pickaway-Ross Joint Vocational School District board. The Pickaway-Ross Joint Vocational School District possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross Joint Vocational School District, 895 Crouse Chapel Road, Chillicothe, Ohio 45601-9010. The Center has no ongoing financial interest or financial responsibility to the Pickaway-Ross Joint Vocational School District.

Pickaway County Educational Service Center
Pickaway County
Notes to the General-Purpose Financial Statements
June 30, 2003

Note 14. Joint Venture

The Center, local and city school districts and the county juvenile court system have formed a joint venture agreement to provide an educational program called PASS (Pickaway County Alternative School for Success.) Initial investment by the Center was \$10,000. The Center is the fiscal agent for the program, which is reported as an internal service fund. Program revenues will consist of contributions from the participating local and city school districts, the Center, the county juvenile court system and fees received from the school districts participating in the program.

On June 1 of each year, the Center, as fiscal agent, will determine if there are excess costs or revenue. Payment by the participating districts for any excess operational cost is based on a formula using total district enrollment days. Should revenue exceed costs, the Center shall carry the balance forward to the new fiscal year or distribute to the participating districts according to the formula should the alternative school be abolished. No excess operational costs were levied for the year ending June 30, 2003.

Note 15. State Funding

The Center is funded by the State Department of Education for the cost of Part (A) of its budget. Part (A) is income based on employed certificated personnel as reported on CS-1 Form for county offices within the policy approved by the State Board of Education. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. The income is based upon a formula established by Section 3317.11 ORC and State Board of Education Policy. 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 Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the 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 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. The three local school districts, Logan Elm, Teays Valley and Westfall, have agreed to increase their funding (Part B) to the Center by an additional \$2.75 per student effective July 1, 2000.

Note 16. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan 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 Center is currently unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

Note 17. Fund Deficits

The Pass Challenge Special Revenue fund had a fund deficit balance of \$(15,285) due to adjustments made for accrued liabilities. The general fund is liable for any deficits in the fund and provides operating transfers when cash is required, not when accruals occur.

This Page Intentionally Left Blank

Pickaway County Educational Service Center
Pickaway County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
United States Department of Education				
<i>Passed through Ohio Department of Education</i>				
Adult and Community Education	ABS1-2003	84.002	\$83,130	\$83,130
Safe & Drug Free Schools	T4S1-2003	84.184c	5,980	5,980
Special Education Grants to States	6BSA-2003	84.027	33,000	18,940
Total United States Department of Education			122,110	108,050
United States Department of Health & Human Services				
<i>Passed through the Pickaway County Board of MRDD</i>				
Medical Assistance Program	NA	93.778	140,792	140,792
<i>Passed through the Pickaway County Job & Family Services Board</i>				
Social Work Program	NA	93.xxx	0	7,251
Temporary Assistance for Needy Families	NA	93.558	84,131	100,163
Total United States Department of Health & Human Services			224,923	248,206
Total Federal Financial Assistance			\$347,033	\$356,256

NA - not available

See Accompanying Notes to Schedule of Federal Awards Expenditures

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
PICKAWAY COUNTY
JUNE 30, 2003

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639 E-Mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

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

Members of the Board
Pickaway County Educational Service Center
1080 U.S. Highway 22 West
Circleville, Ohio 43113

We have audited the financial statements of the Pickaway County Educational Service Center, Pickaway County, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pickaway County 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pickaway County 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.

Members of the Board
Pickaway County Educational Service Center
Circleville, Ohio 43113

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*
Page 2

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

BALESTRA, HARR & SCHERER, CPAs, Inc.
BALESTRA, HARR & SCHERER, CPAs, Inc.

October 24, 2003

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639 E-Mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board
Pickaway County Educational Service Center
1080 U.S. Highway 22 West
Circleville, Ohio 43113

Compliance

We have audited the compliance of the Pickaway County Educational Service Center with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. Pickaway County Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Pickaway County Educational Service Center's management. Our responsibility is to express an opinion on Pickaway County Educational Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pickaway County 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 Pickaway County Educational Service Center's compliance with those requirements.

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

Internal Control Over Compliance

The management of Pickaway County 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 Pickaway County 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 the internal control over compliance in accordance with OMB Circular A-133.

Members of the Board
Pickaway County Educational Service Center
Circleville, Ohio 43113

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133

Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.

October 24, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
PICKAWAY COUNTY
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER
PICKAWAY COUNTY
JUNE 30, 2003

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

Finding Number	None
----------------	------

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**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

PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER

PICKAWAY 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
DECEMBER 30, 2003**