



**Auditor of State  
Betty Montgomery**



**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

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**Auditor of State  
Betty Montgomery**

**REPORT OF INDEPENDENT ACCOUNTANTS**

Columbiana County Educational Service Center  
Columbiana County  
38720 Saltwell Road  
Lisbon, Ohio 44432

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Columbiana County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2003, as listed in the table on contents. These general-purpose financial statements are the responsibility of the 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 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 Columbiana County Educational Service Center, Columbiana County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types 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 March 1, 2004 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty Montgomery**  
Auditor of State

March 1, 2004

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COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2003

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,067,537	\$36,645	\$135,924
Cash and Cash Equivalents:			
With Fiscal Agents			
Receivables:			
Accounts	216,288		
Intergovernmental		46,751	
Interfund Receivable	261,826		
Fixed Assets			
<b>Other Debits:</b>			
Amount to be Provided for Retirement of General Long Term Debt			
<b>Total Assets and Other Debits</b>	<u>\$1,545,651</u>	<u>\$83,396</u>	<u>\$135,924</u>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>			
<b>Liabilities:</b>			
Accounts Payable	\$14,987	\$807	
Accrued Wages and Benefits	617,311	43,281	
Compensated Absences Payable	39,301		
Interfund Payable		261,826	
Intergovernmental Payable	61,138		
Deferred Revenue		45,680	
Undistributed Monies			
Due to Students			
Notes Payable			
Claims Payable			
Capital Leases Payable			
<b>Total Liabilities</b>	<u>732,737</u>	<u>351,594</u>	
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved:			
Reserved for Encumbrances	133,648	3,526	\$38,475
Unreserved:			
Unreserved, Undesignated	679,266	(271,724)	97,449
<b>Total Fund Equity and Other Credits</b>	<u>812,914</u>	<u>(268,198)</u>	<u>135,924</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<u>\$1,545,651</u>	<u>\$83,396</u>	<u>\$135,924</u>

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

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
\$8,319	\$19,487			\$1,267,912
821,114				821,114
				216,288
				46,751
				261,826
		\$2,844,104		2,844,104
			\$990,188	990,188
<u>\$829,433</u>	<u>\$19,487</u>	<u>\$2,844,104</u>	<u>\$990,188</u>	<u>\$6,448,183</u>
				\$15,794
				660,592
			\$182,873	222,174
				261,826
			35,630	96,768
				45,680
	\$6,363			6,363
	13,124			13,124
\$76,748			716,385	716,385
				76,748
			55,300	55,300
<u>76,748</u>	<u>19,487</u>		<u>990,188</u>	<u>2,170,754</u>
		\$2,844,104		2,844,104
752,685				752,685
				175,649
				504,991
<u>752,685</u>		<u>2,844,104</u>		<u>4,277,429</u>
<u>\$829,433</u>	<u>\$19,487</u>	<u>\$2,844,104</u>	<u>\$990,188</u>	<u>\$6,448,183</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<b>Governmental Fund Types</b>			<b>Totals (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>Revenues:</b>				
Intergovernmental	\$2,917,723	\$866,852	\$463,579	\$4,248,154
Interest	7,475			7,475
Tuition and Fees	3,411,645			3,411,645
Rent	13,530			13,530
Extracurricular Activities		2,278		2,278
Gifts and Donations		3,833		3,833
Customer Services	460,757	52,954		513,711
Miscellaneous		1,496		1,496
<b>Total Revenues</b>	<b>6,811,130</b>	<b>927,413</b>	<b>463,579</b>	<b>8,202,122</b>
<b>Expenditures:</b>				
Instruction:				
Regular	133,745	77,326		211,071
Special	849,207	753,345		1,602,552
Vocational	976			976
Support services:				
Pupils	1,711,660	13,865		1,725,525
Instructional Staff	2,151,072	36,823	1,494	2,189,389
Board of Education	45,251			45,251
Administration	265,385	61,960		327,345
Fiscal	168,385	5,000	16,054	189,439
Operation and Maintenance of Plant	101,419			101,419
Pupil Transportation	700,330	1,873		702,203
Central	695,890	3,795	375,595	1,075,280
Non-Instructional Services	977	245,190		246,167
Capital Outlay	78,123			78,123
Debt Service				
Debt Service - Principal	28,695			28,695
Debt Service - Interest	5,523			5,523
<b>Total Expenditures</b>	<b>6,936,638</b>	<b>1,199,177</b>	<b>393,143</b>	<b>8,528,958</b>
Excess of Revenues Over (Under) Expenditures	(125,508)	(271,764)	70,436	(326,836)
<b>Other Financing Sources and Uses</b>				
Refund of Prior Year Expenditures	47,607			47,607
Refund of Prior Year Receipts	(12,379)			(12,379)
<b>Total Other Financing Sources (Uses)</b>	<b>35,228</b>			<b>35,228</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(90,280)	(271,764)	70,436	(291,608)
Fund Balance at Beginning of Year	903,194	3,566	65,488	972,248
<b>Fund Balance at End of Year</b>	<b>\$812,914</b>	<b>(\$268,198)</b>	<b>\$135,924</b>	<b>\$680,640</b>

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

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**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<b>Governmental Fund Types</b>		
	<b>General</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$2,916,800	\$2,916,454	(\$346)
Interest	10,000	7,475	(2,525)
Tuition and Fees	3,625,929	3,544,921	(81,008)
Rent	14,400	13,530	(870)
Extracurricular Activities			
Gifts and Donations			
Customer Service	422,370	460,757	38,387
Miscellaneous			
<b>Total Revenues</b>	<b>6,989,499</b>	<b>6,943,137</b>	<b>(46,362)</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	123,733	121,142	2,591
Vocational	1,240	1,064	176
Special	1,620,304	851,981	768,323
Support services:			
Pupils	1,760,465	1,717,933	42,532
Instructional Staff	2,409,781	2,304,277	105,504
Board of Education	45,302	45,272	30
Administration	308,562	304,466	4,096
Fiscal	169,239	168,873	366
Operation and Maintenance of Plant	102,438	102,378	60
Pupil Transportation	717,527	708,883	8,644
Central	808,562	699,232	109,330
Non-Instructional Services	3,000	1,972	1,028
Capital Outlay	86,000	85,226	774
<b>Total Expenditures</b>	<b>8,156,153</b>	<b>7,112,699</b>	<b>1,043,454</b>
Excess of Revenues Over (Under) Expenditures	(1,166,654)	(169,562)	997,092
<b>Other Financing Sources and Uses</b>			
Refund of Prior Year Expenditures	42,000	41,891	(109)
Advances In			
Refund of Prior Year Receipts		(12,380)	(12,380)
Other Financing Uses	(3,849)		3,849
Advances Out		(194,846)	(194,846)
<b>Total Other Financing Sources (Uses)</b>	<b>38,151</b>	<b>(165,335)</b>	<b>(203,486)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,128,503)	(334,897)	793,606
Fund Balances at Beginning of Year	1,131,819	1,131,819	
Prior Year Encumbrances Appropriated	134,764	134,764	
<b>Fund Balance at end of Year</b>	<b>\$138,080</b>	<b>\$931,686</b>	<b>\$793,606</b>

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

**Governmental Fund Types**

<b>Special Revenue</b>			<b>Capital Projects</b>		
<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
\$888,981	\$869,547	(\$19,434)	\$463,579	\$463,579	
	2,278	2,278			
	3,833	3,833			
52,954	52,954				
	1,496	1,496			
<u>941,935</u>	<u>930,108</u>	<u>(11,827)</u>	<u>463,579</u>	<u>463,579</u>	
81,339	78,630	2,709			
754,061	753,455	606			
14,285	13,865	420			
77,847	39,919	37,928	1,494	1,494	
67,238	61,960	5,278			
5,000	5,000		19,454	16,054	\$3,400
1,873	1,873				
3,796	3,795	1	508,118	414,070	94,048
338,202	211,231	126,971			
<u>1,343,641</u>	<u>1,169,728</u>	<u>173,913</u>	<u>529,066</u>	<u>431,618</u>	<u>97,448</u>
<u>(401,706)</u>	<u>(239,620)</u>	<u>162,086</u>	<u>(65,487)</u>	<u>31,961</u>	<u>97,448</u>
	194,846	194,846			
	<u>194,846</u>	<u>194,846</u>			
(401,706)	(44,774)	356,932	(65,487)	31,961	97,448
63,823	63,823		65,293	65,293	
7,381	7,381		195	195	
<u>(\$330,502)</u>	<u>\$26,430</u>	<u>\$356,932</u>	<u>\$1</u>	<u>\$97,449</u>	<u>\$97,448</u>

(Continued)

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

	<b>Totals (Memorandum Only)</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Intergovernmental	\$4,269,360	\$4,249,580	(\$19,780)
Interest	10,000	7,475	(2,525)
Tuition and Fees	3,625,929	3,544,921	(81,008)
Rent	14,400	13,530	(870)
Extracurricular Activities		2,278	2,278
Gifts and Donations		3,833	3,833
Customer Service	475,324	513,711	38,387
Miscellaneous		1,496	1,496
<b>Total Revenues</b>	<b>8,395,013</b>	<b>8,336,824</b>	<b>(58,189)</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	205,072	199,772	5,300
Vocational	1,240	1,064	176
Special	2,374,365	1,605,436	768,929
Support services:			
Pupils	1,774,750	1,731,798	42,952
Instructional Staff	2,489,122	2,345,690	143,432
Board of Education	45,302	45,272	30
Administration	375,800	366,426	9,374
Fiscal	193,693	189,927	3,766
Operation and Maintenance of Plant	102,438	102,378	60
Pupil Transportation	719,400	710,756	8,644
Central	1,320,476	1,117,097	203,379
Non-Instructional Services	341,202	213,203	127,999
Capital Outlay	86,000	85,226	774
<b>Total Expenditures</b>	<b>10,028,860</b>	<b>8,714,045</b>	<b>1,314,815</b>
Excess of Revenues Over (Under) Expenditures	(1,633,847)	(377,221)	1,256,626
<b>Other Financing Sources and Uses</b>			
Refund of Prior Year Expenditures	42,000	41,891	(109)
Advances In		194,846	194,846
Refund of Prior Year Receipts		(12,380)	(12,380)
Other Financing Uses	(3,849)		3,849
Advances Out		(194,846)	(194,846)
<b>Total Other Financing Sources (Uses)</b>	<b>38,151</b>	<b>29,511</b>	<b>(8,640)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,595,696)	(347,710)	1,247,986
Fund Balances at Beginning of Year	1,260,935	1,260,935	
Prior Year Encumbrances Appropriated	142,340	142,340	
<b>Fund Balance at end of Year</b>	<b>(\$192,421)</b>	<b>\$1,055,565</b>	<b>\$1,247,986</b>

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND EQUITY  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<b>Proprietary Fund Types</b>
	<b>Internal Service</b>
<b>Operating Revenues:</b>	
Charges for Services	\$1,420,928
Refund of Prior Year Expense	14,247
Total Operating Revenues	1,435,175
<b>Operating Expenses</b>	
Fringe Benefits	208
Purchased Services	176,934
Materials and Supplies	5,326
Other	1,234,088
Total Operating Expenses	1,416,556
Operating Income (Loss)	18,619
<b>Non-Operating Revenues and Expenses</b>	
Interest	4,885
Total Non-Operating Revenues and Expenses	4,885
Net Income (Loss)	23,504
Retained Earnings at Beginning of Year	729,181
Retained Earnings at End of Year	\$752,685

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Types</u>
	<u>Internal Service</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$1,421,153
Cash Received from Other	14,247
Cash Payments to Suppliers for Goods and Service	(4,969)
Cash Payments for Contract Services	(176,934)
Cash Payments for Employee Benefits	(208)
Other Cash Payments	(1,243,434)
Net Cash Provided (Used) by Operating Activities	<u>9,855</u>
Cash Flows from Investing Activities:	
Interest Received	<u>4,885</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(357)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(357)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,383
Cash and Cash Equivalents at Beginning of Year	<u>815,050</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$829,433</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$18,619
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operating Activities:	
Adjustments for Noncash Transactions	357
(Increase) Decrease in Assets:	
Accounts Receivable	225
Increase (Decrease) in Liabilities:	
Claims Payable	<u>(9,346)</u>
Total Adjustments	<u>(8,764)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$9,855</u></u>

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Note 1 - Description of the Educational Service Center and Reporting Entity**

The Columbiana County 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 operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the Educational Service Center's support facilities staffed by 48 non-certificated and 57 certificated teaching personnel, and three administrators who provide services to 17,822 students and other community members.

**Reporting Entity**

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds that are not legally separate from the Educational Service Center; this includes all funds and activities whose primary purpose is providing necessary services to area school districts.

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

The Educational Service Center is associated with certain organizations, which are defined as a Jointly Governed Organization and Public Entity Risk Pools. These organizations are presented in Notes 13 and 14 to the general-purpose financial statements. These organizations include the Area Cooperative Computerized Educational Service System, the Columbiana County Self-Insurance Consortium and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation - Fund Accounting**

The Educational Service Center uses funds and account groups to report 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.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**  
**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**  
(Continued)

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group 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.

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 and the related current liabilities (except those accounted for in the proprietary fund) 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 the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

**Proprietary Fund Type:**

The proprietary fund is used to account for the Educational Service Center's ongoing activities, which are similar to those often 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. These include trust and agency funds. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have a measurement focus.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**  
**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**  
(Continued)

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

**Account Groups:**

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

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

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, tuition, grants, and customer services.

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 in which they are earned, and expenses are recognized at the time they are incurred.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

**C. Budgetary Data**

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code. Annually, on or before a date designated by the State Board of Education, the Educational Service Center prepares a budget of operating expenses for the ensuing year on forms prepared and furnished by the State Board of Education and certifies the budget to the State Board of Education, together with such other information as the Board may require. The budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the County Educational Service Center. The State Board of Education reviews the budget.

**Appropriations:**

The annual appropriation resolution is enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in 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, consistent with statutory provisions.

**Encumbrances:**

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

**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.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

**D. Cash and Investments**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2003, investments were limited to repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

During the fiscal year, all investments of the Educational Service Center had a maturity of three months or less. These investments are stated at cost, which approximates market. Under existing Ohio statutes, the Board of Education may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2003, the general fund and self-insurance internal service fund received interest. Interest revenue earned in 2003 totaled \$12,360.

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 maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**E. Intergovernmental Revenues**

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Entitlements are recorded as receivables and revenues in the period intended to finance. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**  
(Continued)

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

Non-Reimbursable Grants

Special Revenue Funds

Management Information System  
School Net Connectivity  
School Net Professional Development  
Telecommunications Act Grant  
Alternative Schools  
BCII  
American Sign Language Pilot Project  
Title VI-B  
Safe and Drug Free  
Preschool Grant  
Americorps Grant

Capital Projects Fund

School Net Equipment Program

Grants and entitlements amounted to 43 percent of the Educational Service Center's governmental funds revenue during the 2003 fiscal year.

**F. Pass-Through Grants**

The Educational Service Center is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Educational Service Center has no financial or administrative role and are passed-through to the local school district in the County are reported in an agency fund.

**G. Fixed Assets**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of one hundred and fifty dollars. The Educational Service Center does not have any capitalized infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

The Educational Center uses the termination method for the calculation of sick leave benefits. The liability includes the employees who are currently eligible to receive termination benefits and those, the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

For governmental funds, the current portion of 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 obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**I. Accrued Liabilities and Long-Term Obligations**

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

**J. 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.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**K. Fund Balance Reserves**

The Educational Service Center records reservations for portions of fund equity, which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Undesignated fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund equity reserves are established for encumbrances.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 2 - Summary of Significant Accounting Policies – (Continued)**

**L. Total Columns on General Purpose Financial Statements**

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

**Note 3 - Budgetary Basis of Accounting**

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP basis).

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 All Governmental Fund Types		
	General	Special Revenue	Capital Projects
Budget Basis	(\$334,897)	(\$44,774)	\$31,961
Revenue Accruals	(132,007)	(2,695)	
Expenditure Accruals	27,450	(33,784)	
Other Sources/Uses	200,560	(194,845)	
Encumbrances	148,614	4,334	38,475
GAAP Basis	<u>(\$90,280)</u>	<u>(\$271,764)</u>	<u>\$70,436</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**  
**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS**  
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(Continued)

**Note 4 - Deposits and Investments**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawal 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 monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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

1. United States treasury notes, bills bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or 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; and
6. The State Treasurer's investment pool (STAR Ohio).

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
 NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
 (Continued)**

**Note 4 - Deposits and Investments – (Continued)**

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 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.

**Cash on Hand:** At year end, the Educational Service Center had \$100 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "equity in pooled cash and cash equivalents".

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

At June 30, 2003, the Educational Service Center's self-insurance internal service fund cash balance of \$821,114 cannot be identified as either a deposit or investment. The money is held by the claims servicer in a pooled account, which is representative of numerous entities.

**Deposits:** At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$261,581 and the bank balance was \$127,687. Of the bank balance:

1. \$116,655 was covered by federal depository insurance and;
2. \$11,032 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**Investments:** The Educational Service Center's investments are categorized below 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.

	Category 3	Carrying Value	Market Value
Repurchase Agreement	\$1,006,228	\$1,006,228	\$1,006,228

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 4 - Deposits and Investments – (Continued)**

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,089,026	
Cash on Hand	(100)	
Investments:		
Repurchase Agreement	(1,006,228)	\$1,006,228
Money held by fiscal agent for self-insurance internal service fund	(821,114)	
GASB Statement No. 3	\$261,581	\$1,006,228

**Note 5 - State Funding**

The Educational Service Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. (For an explanation of the budget, see Note 2 - Budgetary Data.)

Part (B) of the budget is funded by the State Board of Education from State funds and participating School Districts. The Educational Service Center receives \$37.00 per student for part (B) funding. Six dollars and fifty cents times the ADM (Total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local School Districts to which the Educational Service Center provides services. These payments are made and received through the State's foundation program. Simultaneously, twenty-nine dollars times the sum of the ADM is paid by the State Board of Education from State funds to the Columbiana County Educational Service Center.

If additional funding is required and if a majority of the boards of education of the local school districts approve, the cost of Part (B) of the budget that is in excess of \$37.00 times the ADM approved by the State Board of Education is apportioned to the local school districts through reductions in their state foundation payments. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

**Note 6 - Fixed Assets**

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

Asset Category	Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Building and Grounds	\$975,000			\$975,000
Furniture and Equipment	1,123,700	\$132,623	\$2,928	1,253,395
Vehicles	468,029			468,029
Capital Leases	147,680			147,680
Totals	\$2,714,409	\$132,623	\$2,928	\$2,844,104

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**Note 7 - Risk Management**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the Educational Service Center contracted with Nationwide Insurance Company for property and general liability insurance.

Professional liability is protected by the Nationwide Insurance Company with a \$5,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible. Vehicles are also covered by Nationwide Insurance Company and hold no deductible for comprehensive and a \$100 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability for property damage and bodily injury, and \$5,000 medical payment coverage per person. Settled claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). 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 participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall 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 and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The Educational Service Center is a member of a shared risk pool, consisting of area school districts and service centers, within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. The claims liability of \$76,748 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No.10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past fiscal year is as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$274,412	\$742,954	\$931,272	\$86,094
2003	\$86,094	\$1,234,088	\$1,243,434	\$76,748

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 8 - Defined Benefit Pension Plan**

**A. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available 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.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations for fiscal year 2003. For fiscal year 2002, 5.46 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$18,986, \$20,563, and \$47,758, respectively, equal to the required contributions for each year.

**B. State Teachers Retirement System**

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

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

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)

**Note 8 - Defined Benefit Pension Plan – (Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations for fiscal year 2003. For fiscal year 2002, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation 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, 2003, 2002, and 2001 were \$468,438, \$765,929, and \$370,618 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of \$42,152, is recorded as a liability within the respective funds.

**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 Teacher Retirement System. As of June 30, 2003, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 9 - Postemployment Benefits**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 10 – Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees, administrators and supervisors earn five to twenty days of vacation per year depending upon length of service. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

**B. Medical Insurance**

The Educational Service Center maintains a health and welfare plan that provides medical, dental, vision, and prescription drug card benefits. The family annual premium is \$11,912 and single annual premium is \$4,947. These premiums are paid to the Columbiana County Self-Insurance Consortium.

**C. Life Insurance**

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided by the Columbiana County Self-Insurance Consortium.

**Note 11 - Long-Term Obligations**

Changes in long-term obligations of the Educational Service Center from June 30, 2002, to June 30, 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Reductions	Principal Outstanding 6/30/03
Compensated Absences	\$177,708	\$5,165		\$182,873
Intergovernmental	59,453		\$23,823	35,630
Loan Payable	794,509		78,124	716,385
Capital Leases	83,995		28,695	55,300
Totals	<u>\$1,115,665</u>	<u>\$5,165</u>	<u>\$130,642</u>	<u>\$990,188</u>

Compensated absences and intergovernmental will be paid from the fund from which the employee is paid.

The loan payments will be paid from the general fund.

The capital lease payments will be paid from the general fund.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 11 - Long-Term Obligations (Continued)**

The annual requirements to amortize all debt outstanding as of June 30, 2003 are as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$55,995	\$29,231	\$85,226
2005	58,399	26,827	85,226
2006	60,825	24,401	85,226
2007	63,351	21,875	85,226
2008	65,930	19,296	85,226
2019-2023	411,885	12,611	424,496
Total	<u>\$716,385</u>	<u>\$134,241</u>	<u>\$850,626</u>

**Note 12 - Contingencies**

**A. Grants**

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

**B. Litigation**

The Educational Service Center is not party to any legal proceedings.

**Note 13 - Jointly Governed Organization**

The Area Cooperative Computerized Educational Service System ("ACCESS"), a not-for-profit computer service, is jointly governed by 24 districts within Mahoning and Columbiana counties. ACCESS is governed by a assembly consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the assembly. Members of ACCESS are assessed annual user fees and periodic capital improvement fees based on their average daily membership. The members do have an ongoing financial interest in ACCESS; however, they do not have an equity interest. Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Youngstown, Ohio 44512.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**Note 14 - Public Entity Risk Pools**

**A. Insurance Purchasing Pool**

The Educational Service Center participates in a group rating program for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Program (the "Program") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

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

**B. Shared Risk Pool**

Columbiana County Employees Insurance Consortium is a shared risk pool. The consortium provides services to the six member schools including, health, dental, prescription drug and life insurance. The Board of Directors is comprised of the Superintendent from each District. All claims are processed through a third-party administrator, and the fiscal agent and budgeting authority is East Palestine City School District. Financial information can be obtained by writing to the East Palestine City School District, 166 East North Avenue, East Palestine, Ohio 44413.

**Note 15 - 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**Note 16 – Interfund Transactions**

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

	Interfund Receivable	Interfund Payable
General Fund	\$261,826	
Special Revenue Funds		\$261,826
Total All Funds	\$261,826	\$261,826

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**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**

**COLUMBIANA COUNTY**

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

<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>				
<b>Special Education Cluster:</b>				
Special Education Grants to States (IDEA Part B)	6B-SF-02	84.027	7,200	7,200
	6B-SF-03		674,856	674,856
Total Special Education Grants to States			682,056	682,056
Special Education - Preschool Grant	PG-S1-02	84.173	41,647	41,647
	PG-S1-03		41,511	41,511
Total Special Education - Preschool Grant			83,158	83,158
<b>Total Special Education Cluster</b>			<b>765,214</b>	<b>765,214</b>
Goals 2000 -State and Local Education Systemic Improvement Grants	G2-S3-01	84.276		46,965
Safe and Drug Free Grant	T4-S1-02	84.184	1,200	541
	T4-S1-03		1,371	1,029
Total Safe and Drug Free Grant			2,571	1,570
<b>Total Department of Education</b>			<b>767,785</b>	<b>813,749</b>
<b><u>U.S. Department of Labor</u></b>				
<i>Passed through Ohio Department of Education</i>				
Alternative School / MCTA Grant	N/A	17.259	13,980	13,980
<b><u>Corporation for National &amp; Community Service</u></b>				
<i>Pass through the Ohio National &amp; Community Service</i>				
Americorps 2001 Grant	N/A	94.006	1,549	
Americorps 2002 Grant			47,748	47,748
Americorps 2003 Grant			177,978	177,780
Total Americorps Grant			227,275	225,528
<b>Totals</b>			<b>\$1,009,040</b>	<b>\$1,053,257</b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2003**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

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



## **Auditor of State Betty Montgomery**

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

Columbiana County Educational Service Center  
Columbiana County  
38720 Saltwell Road  
Lisbon, Ohio 44432

To the Board of Education:

We have audited the accompanying financial statements of the Columbiana County Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 1, 2004. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated March 1, 2004.

#### **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 March 1, 2004.

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

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

**Betty Montgomery**  
Auditor of State

March 1, 2004



## Auditor of State Betty Montgomery

### REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Columbiana County Educational Service Center  
Columbiana County  
38720 Saltwell Road  
Lisbon, Ohio 44432

#### Compliance

We have audited the compliance of Columbiana County Educational Service Center (the Educational Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Educational Service Center's major federal programs are 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 each of its major federal programs 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.

As described in item #2003-001 in the accompanying schedule of findings and questioned costs, the Educational Service Center did not comply with requirements regarding Allowable Costs Principles that are applicable to its Goals 2000 – State and Local Education Systemic Improvement Grants. Compliance with such requirements is necessary, in our opinion, for the Educational Service Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated March 1, 2004.

This report is intended for the information and use of the Board, management, 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.



**Betty Montgomery**  
Auditor of State

March 1, 2004

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER  
COLUMBIANA COUNTY  
JUNE 30, 2003**

**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 control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<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>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Goals 2000 (CFDA # 84.276) Americorps (CFDA # 94.006)
<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

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

None

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**  
**COLUMBIANA COUNTY**  
**JUNE 30, 2003**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

**1. Questioned Costs:** \$ 20,738.24 for travel expenses

CFDA # 84.276 – Goals 2000 (State and Local Education Systemic Improvement Grants)

**Condition:** Columbiana County Educational Service Center reimbursed a Collaborative Research Team a total of \$20,738.24 for expenses incurred for travel to educational conferences held in Williamsburg, Virginia, Minneapolis, Minnesota, and Amsterdam, Holland.

**Criteria:** OMB Circular A-87 requires all costs to conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items. Neither the grant agreement nor the proposed budget for the Goals 2000 (State and Local Education Systemic Improvement Grants), provided for reimbursement of travel expenses for attending the conferences listed above.

**Effect:** The Collaborative Research Team received reimbursements that totaled \$20,738.24 for travel expenses incurred when the team attended educational conferences in Williamsburg, Virginia, Minneapolis, Minnesota, and Amsterdam, Holland, however no evidence was provided to us that would indicate that these reimbursements were allowable costs as provided by OMB Circular A-87.

**Cause:** Columbiana County Educational Service Center requested and received reimbursement for expenses noted above that were not approved or outlined in the grant agreement.

**Recommendation:** Columbiana County Educational Service Center should develop policies and procedures to ensure, federal expenditures, which are incurred for reimbursement of travel expenses, are allowable costs as described by OMB Circular A-87 and the respective grant agreement.



**Auditor of State  
Betty Montgomery**

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**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER**

**COLUMBIANA 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  
JULY 8, 2004**