



**Auditor of State
Betty Montgomery**

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

We have audited the accompanying general purpose financial statements of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Scioto County Joint Vocational School District, the Educational Service Center's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Scioto County Joint Vocational School District, is based on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Central Ohio Educational Service Center, Scioto County, as of June 30, 2003, and the results of its operations and cash flows of its nonexpendable trust fund and discretely presented component unit 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 February 24, 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 Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 24, 2004

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South Central Ohio Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 and Discretely Presented Component Unit
 June 30, 2003

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPES
	General	Special Revenue	Trust and Agency
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$532,812	\$505,091	\$6,538,509
Receivables:			
Property Taxes	0	0	0
Accounts	728	0	0
Intergovernmental	15,210	148,349	0
Accrued Interest	0	0	29,418
Interfund	525	0	0
Prepaid Items	5,397	4,419	88
Inventory Held for Resale	0	0	0
Materials and Supplies Inventory	0	0	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0
 <u>Other Debits:</u>			
Amount to be Provided from General Government Resources	0	0	0
 <i>Total Assets and Other Debits</i>	\$554,672	\$657,859	\$6,568,015

<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)	<i>COMPONENT UNIT</i>	Totals (Memorandum Only)
General Fixed Assets	General Long-Term Obligations	Primary Government	Scioto County Joint Vocational School District	Reporting Entity
\$0	\$0	\$7,576,412	\$5,020,544	\$12,596,956
0	0	0	2,803,155	2,803,155
0	0	728	312,837	313,565
0	0	163,559	4,432,919	4,596,478
0	0	29,418	0	29,418
0	0	525	16,180	16,705
0	0	9,904	21,328	31,232
0	0	0	4,979	4,979
0	0	0	11,230	11,230
0	0	0	338,433	338,433
342,654	0	342,654	7,763,438	8,106,092
0	554,442	554,442	646,245	1,200,687
<u>\$342,654</u>	<u>\$554,442</u>	<u>\$8,677,642</u>	<u>\$21,371,288</u>	<u>\$30,048,930</u>

(continued)

South Central Ohio Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 and Discretely Presented Component Unit
 June 30, 2003
 (continued)

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPES
	General	Special Revenue	Trust and Agency
<u>Liabilities,</u>			
<u>Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$18,881	\$138,121	\$0
Accrued Wages and Benefits	128,353	273,568	942
Compensated Absences Payable	28,906	4,066	628
Interfund Payable	0	525	0
Intergovernmental Payable	69,236	57,650	160
Deferred Revenue	0	116,300	0
Undistributed Monies	0	0	6,531,285
Notes Payable	0	0	0
Capital Leases Payable	0	0	0
Energy Conservation Loan Payable	0	0	0
	245,376	590,230	6,533,015
<i>Total Liabilities</i>			
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	35,000
Fund Balance:			
Reserved for Encumbrances	24,813	135,971	0
Reserved for Inventory	0	0	0
Reserved for Prepaid Items	0	0	0
Reserved for Property Taxes	0	0	0
Reserved for Capital Acquisition	0	0	0
Unreserved:			
Undesignated (Deficit)	284,483	(68,342)	0
	309,296	67,629	35,000
<i>Total Fund Equity and Other Credits</i>			
	309,296	67,629	35,000
<i>Total Liabilities, Fund Equity and Other Credits</i>			
	\$554,672	\$657,859	\$6,568,015

See accompanying notes to the general purpose financial statements

<i>ACCOUNT GROUPS</i>		<i>COMPONENT UNIT</i>		
General	General	Totals	Scioto County	Totals
Fixed	Long-Term	(Memorandum	Joint Vocational	(Memorandum
Assets	Obligations	Only)	School District	Only)
\$0	\$0	\$157,002	\$136,648	\$293,650
0	0	402,863	429,331	832,194
0	414,293	447,893	533,517	981,410
0	0	525	16,180	16,705
0	8,829	135,875	186,934	322,809
0	0	116,300	6,620,277	6,736,577
0	0	6,531,285	18,146	6,549,431
0	0	0	560,000	560,000
0	131,320	131,320	43,500	174,820
0	0	0	130,000	130,000
0	554,442	7,923,063	8,674,533	16,597,596
342,654	0	342,654	7,592,776	7,935,430
0	0	35,000	518,881	553,881
0	0	160,784	88,928	249,712
0	0	0	10,280	10,280
0	0	0	21,328	21,328
0	0	0	116,401	116,401
0	0	0	338,433	338,433
0	0	216,141	4,009,728	4,225,869
342,654	0	754,579	12,696,755	13,451,334
<u>\$342,654</u>	<u>\$554,442</u>	<u>\$8,677,642</u>	<u>\$21,371,288</u>	<u>\$30,048,930</u>

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South Central Ohio Educational Service Center
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 and Discretely Presented Component Unit
 For the Fiscal Year Ended June 30, 2003

	General	Special Revenue	Totals (Memorandum Only) Primary Government	Scioto County Joint Vocational School District	Totals (Memorandum Only) Reporting Entity
<u>Revenues:</u>					
Taxes	\$0	\$0	\$0	\$2,141,400	\$2,141,400
Intergovernmental	832,380	2,250,696	3,083,076	9,489,993	12,573,069
Interest	9,321	0	9,321	53,672	62,993
Tuition and Fees	1,781,822	1,723,131	3,504,953	62,509	3,567,462
Extracurricular Activities	0	0	0	11,483	11,483
Gifts and Donations	9,500	0	9,500	0	9,500
Customer Services	255,601	133,874	389,475	491,757	881,232
Miscellaneous	9,757	0	9,757	88,806	98,563
Total Revenues	2,898,381	4,107,701	7,006,082	12,339,620	19,345,702
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	98,314	219,714	318,028	0	318,028
Special	0	2,284,395	2,284,395	51,031	2,335,426
Vocational	0	120	120	3,086,034	3,086,154
Adult/Continuing	45,059	122,065	167,124	0	167,124
Other	0	0	0	422	422
Support Services:					
Pupils	946,753	327	947,080	6,259,091	7,206,171
Instructional Staff	1,189,025	844,963	2,033,988	288,328	2,322,316
Board of Education	63,986	0	63,986	7,493	71,479
Administration	421,851	456,052	877,903	579,425	1,457,328
Fiscal	132,020	129,170	261,190	348,170	609,360
Business	0	0	0	2,602	2,602
Operation and Maintenance of Plant	58,093	2,078	60,171	870,559	930,730
Pupil Transportation	0	8,721	8,721	0	8,721
Central	76,205	1,873	78,078	227,774	305,852
Extracurricular Activities	0	0	0	62,595	62,595
Capital Outlay	133,435	0	133,435	42,216	175,651
Debt Service:					
Principal Retirement	18,112	3,663	21,775	142,557	164,332
Interest and Fiscal Charges	6,800	1,606	8,406	52,696	61,102
Total Expenditures	3,189,653	4,074,747	7,264,400	12,020,993	19,285,393
Excess of Revenues Over (Under) Expenditures	(291,272)	32,954	(258,318)	318,627	60,309
<u>Other Financing Sources (Uses):</u>					
Inception of Capital Lease	133,435	0	133,435	43,500	176,935
Operating Transfers In	1,352	3,400	4,752	156,757	161,509
Operating Transfers Out	0	(4,752)	(4,752)	(241,751)	(246,503)
Total Other Financing Sources (Uses)	134,787	(1,352)	133,435	(41,494)	91,941
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(156,485)	31,602	(124,883)	277,133	152,250
Increase in Inventory	0	0	0	3,721	3,721
Fund Balances at Beginning of Year	465,781	36,027	501,808	4,304,244	4,806,052
Fund Balances at End of Year	\$309,296	\$67,629	\$376,925	\$4,585,098	\$4,962,023

See accompanying notes to the general purpose financial statements

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

	GENERAL FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$830,205	\$830,205	\$0
Interest	9,321	9,321	0
Tuition and Fees	1,776,847	1,776,847	0
Gifts and Donations	9,500	9,500	0
Customer Services	275,270	272,820	(2,450)
<i>Total Revenues</i>	2,901,143	2,898,693	(2,450)
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	92,583	92,583	0
Special	0	0	0
Adult/Continuing	44,911	44,911	0
Support Services:			
Pupils	902,893	902,893	0
Instructional Staff	1,199,662	1,199,662	0
Board of Education	79,573	79,573	0
Administration	419,284	419,284	0
Fiscal	132,570	132,570	0
Operation and Maintenance of Plant	58,813	58,813	0
Pupil Transportation	0	0	0
Central	109,797	109,797	0
<i>Total Expenditures</i>	3,040,086	3,040,086	0
Excess of Revenues Under Expenditures	(138,943)	(141,393)	(2,450)
<u>Other Financing Sources (Uses):</u>			
Refund of Prior Year Expenditures	11,204	11,204	0
Operating Transfers In	1,352	1,352	0
Operating Transfers Out	0	0	0
Advances In	231,883	231,883	0
Advances Out	(525)	(525)	0
<i>Total Other Financing Sources (Uses)</i>	243,914	243,914	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	104,971	102,521	(2,450)
Fund Balances at Beginning of Year	329,596	329,596	0
Prior Year Encumbrances Appropriated	21,160	21,160	0
Fund Balances at End of Year	\$455,727	\$453,277	(\$2,450)

See accompanying notes to the general purpose financial statements

<i>SPECIAL REVENUE FUNDS</i>			<i>TOTALS (MEMORANDUM ONLY)</i>		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$2,447,452	\$2,326,246	(\$121,206)	\$3,277,657	\$3,156,451	(\$121,206)
0	0	0	9,321	9,321	0
1,723,131	1,723,131	0	3,499,978	3,499,978	0
0	0	0	9,500	9,500	0
130,933	130,933	0	406,203	403,753	(2,450)
4,301,516	4,180,310	(121,206)	7,202,659	7,079,003	(123,656)
239,719	239,719	0	332,302	332,302	0
2,237,910	2,237,910	0	2,237,910	2,237,910	0
125,923	125,923	0	170,834	170,834	0
14,259	14,259	0	917,152	917,152	0
1,061,011	1,061,011	0	2,260,673	2,260,673	0
0	0	0	79,573	79,573	0
489,107	489,107	0	908,391	908,391	0
128,502	128,502	0	261,072	261,072	0
2,078	2,078	0	60,891	60,891	0
8,721	8,721	0	8,721	8,721	0
1,873	1,873	0	111,670	111,670	0
4,309,103	4,309,103	0	7,349,189	7,349,189	0
(7,587)	(128,793)	(121,206)	(146,530)	(270,186)	(123,656)
3,000	3,000	0	14,204	14,204	0
3,400	3,400	0	4,752	4,752	0
(4,752)	(4,752)	0	(4,752)	(4,752)	0
525	525	0	232,408	232,408	0
(231,883)	(231,883)	0	(232,408)	(232,408)	0
(229,710)	(229,710)	0	14,204	14,204	0
(237,297)	(358,503)	(121,206)	(132,326)	(255,982)	(123,656)
224,680	224,680	0	554,276	554,276	0
357,541	357,541	0	378,701	378,701	0
\$344,924	\$223,718	(\$121,206)	\$800,651	\$676,995	(\$123,656)

South Central Ohio Educational Service Center
 Combined Statement of Revenues, Expenses and Changes in
 Fund Balance/Retained Earnings
 Nonexpendable Trust Fund and Discretely Presented Component Unit
 For the Fiscal Year Ended June 30, 2003

	<i>Nonexpendable Trust</i>	<i>Scioto County Joint Vocational School District</i>	Totals (Memorandum Only)
<u>Operating Revenues:</u>			
Tuition	\$0	\$960,101	\$960,101
Sales	0	62,841	62,841
Contributions and Donations	35,000	0	35,000
Other Operating Revenues	0	35,115	35,115
<i>Total Operating Revenues</i>	<u>35,000</u>	<u>1,058,057</u>	<u>1,093,057</u>
<u>Operating Expenses:</u>			
Salaries	0	965,880	965,880
Fringe Benefits	0	362,385	362,385
Purchased Services	0	265,527	265,527
Materials and Supplies	0	625,592	625,592
Cost of Sales	0	132,503	132,503
Depreciation	0	36,376	36,376
Other	0	12,901	12,901
<i>Total Operating Expenses</i>	<u>0</u>	<u>2,401,164</u>	<u>2,401,164</u>
Operating Income (Loss)	<u>35,000</u>	<u>(1,343,107)</u>	<u>(1,308,107)</u>
<u>Non-Operating Revenues:</u>			
Federal Donated Commodities	0	15,878	15,878
Interest	0	692	692
Federal and State Subsidies	0	982,018	982,018
<i>Total Non-Operating Revenues</i>	<u>0</u>	<u>998,588</u>	<u>998,588</u>
Net Income (Loss) Before Operating Transfers	35,000	(344,519)	(309,519)
Operating Transfers In	0	84,994	84,994
Net Income (Loss)	35,000	(259,525)	(224,525)
Fund Balance/Retained Earnings at Beginning of Year	<u>0</u>	<u>778,406</u>	<u>778,406</u>
Fund Balance/Retained Earnings at End of Year	<u>\$35,000</u>	<u>\$518,881</u>	<u>\$553,881</u>

See accompanying notes to the general purpose financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Nonexpendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	<i>Nonexpendable Trust Fund</i>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Gifts and Donations	\$35,000	\$35,000	\$0
Expenses	0	0	0
Excess of Revenues Over Expenses	35,000	35,000	0
Fund Equity at Beginning of Year	0	0	0
Fund Equity at End of Year	\$35,000	\$35,000	\$0

See accompanying notes to the general purpose financial statements

South Central Ohio Educational Service Center
Statement of Cash Flows
Nonexpendable Trust Fund and Discretely Presented Component Unit
For the Fiscal Year Ended June 30, 2003

	<i>Nonexpendable Trust Fund</i>	<i>Scioto County Joint Vocational School District</i>
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>		
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Customers	\$0	\$62,841
Cash Received from Tuition Payments	0	863,831
Cash Received from Contributions and Donations	35,000	0
Cash Received from Other Operating Sources	0	35,115
Cash Payments to Suppliers for Goods and Services	0	(978,000)
Cash Payments to Employees for Services	0	(936,627)
Cash Payments to Employee Benefits	0	(364,542)
<i>Net Cash Provided by (Used for) Operating Activities</i>	35,000	(1,317,382)
<u>Cash Flows from Noncapital Financing Activities:</u>		
Operating Grants Received	0	982,018
Transfers In	0	84,994
<i>Net Cash Provided by Noncapital Financing Activities</i>	0	1,067,012
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Cash Payments for Capital Acquisitions	0	(40,426)
<u>Cash Flows from Investing Activities:</u>		
Interest on Investments	0	692
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	35,000	(290,104)
Cash and Cash Equivalents at Beginning of Year	0	613,261
Cash and Cash Equivalents at End of Year	\$35,000	\$323,157
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</u>		
Operating Income (Loss)	\$35,000	(\$1,343,107)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</u>		
Depreciation	0	36,376
Donated Commodities Used During Year	0	15,878
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	0	(96,270)
Decrease in Inventory Held for Resale	0	10,357
Increase in Accounts Payable	0	38,008
Decrease in Accrued Wages and Benefits	0	(8,994)
Increase in Compensated Absences Payable	0	34,811
Increase in Intergovernmental Payable	0	1,279
Decrease in Deferred Revenue	0	(5,720)
<i>Total Adjustments</i>	0	25,725
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$35,000	(\$1,317,382)
<u>Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Funds to Balance Sheet</u>		
Cash and Cash Equivalents - All Fiduciary Funds	\$6,538,509	
Cash and Cash Equivalents - Agency Funds	(6,503,509)	
Cash and Cash Equivalents - Nonexpendable Trust Fund	\$35,000	

See accompanying notes to the general purpose financial statements

South Central Ohio 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 South Central Ohio Educational Service Center (the Educational Service Center) is located in Portsmouth, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Adams County/Ohio Valley, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, and Wheelersburg Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 39 classified, 53 certified, and 2 administrative personnel that provide services to the local, city, and joint vocational school districts.

Reporting Entity:

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

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 organizations' 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 Scioto County Joint Vocational School District is a component unit of the South Central Ohio Educational Service Center.

The School District is a discretely presented component unit of the Educational Service Center, a legally separate body politic. Three out of five board members of the School District are also board members of the Educational Service Center. The School District is responsible for levying taxes, approving its own budgets, appointing personnel, and accounting and financing related activities.

South Central Ohio 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 (continued)

The component unit column in the combined financial statements identifies the financial data of the Educational Service Center's discretely presented component unit, the Scioto County Joint Vocational School District. It is reported separately to emphasize that it is legally separate from the Educational Service Center.

Separately issued financial statements can be obtained from the Scioto County Joint Vocational School District, P.O. Box 766, Lucasville, Ohio 45648.

The Educational Service Center participates in six organizations, four of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Family and Children First Council of Scioto County, the Coalition of Rural and Appalachian Schools, the Pilasco-Ross Special Education Regional Resource Center, the Scioto County Schools Council, and the Ohio School Plan. Information about these organizations is presented in Notes 16, 17, and 18 to the general purpose financial statements.

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County and Scioto County Schools Council. Accordingly, the activity is presented as an agency fund within the Educational Service Center financial statements.

The information in Notes 2 through Note 21 relate to the primary government. Information relating to the discretely presented component unit is presented in Note 22.

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 more significant of the Educational Service Center's accounting policies are described below.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental 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 are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

General Fund - The general fund is the 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 – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Fiduciary Fund Type:

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

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

Nonexpendable trust 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 earnings components. Nonexpendable trust fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

C. Budgetary Process

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts: Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Governing Board's authorization to spend resources and which sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget submitted to the State Department of Education and the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

Appropriations:

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control established by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board of the Educational Service Center.

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 Department of Education. During the year, two supplemental appropriations were 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.

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 fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations:

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all 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, the Educational Service Center's investments were limited to Money Market Fund, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Notes, Federal National Mortgage Association Bonds, and State Treasury Assets Reserve of Ohio (STAROhio). Investments are reported at fair value which is based on quoted market prices.

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

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$9,321, which includes \$4,071 assigned from other Educational Service Center funds.

For purposes of the statement of cash flows and for presentation of 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 Educational Service Center are considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and 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 five hundred dollars. The Educational Service Center does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are depreciated using the straight-line method over an estimated useful life of five to twenty years for furniture, fixtures and equipment.

G. 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.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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. The Educational Service Center records a liability for accumulated unused sick leave for certified employees and support staff after 10 years of service.

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.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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, compensated absences and contractually required pension contributions 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. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources. Capital leases are reported as a liability of the general long-term obligations account group until due.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables.”

J. Interfund Transactions

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

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

K. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the 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. For fiscal year 2003, these funds included the Ohio Reads, Help Me Grow and Regional Professional Development Centers Special Revenue Funds.

L. 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 expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Estimates

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

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. When the title of a statement indicates that a component unit is included, two total columns are presented. The first is captioned "Primary Government" to indicate that only those activities that comprise the Educational Service Center's legal entity have been included. The second is captioned "Reporting Entity" and includes the activity and operations of the Educational Service Center's discretely presented component unit (see Note 1). The "Totals" column on statements which do not include a component unit have no additional caption.

NOTE 3 - RESTATEMENT OF ACCOUNT GROUP BALANCES

Due to an appraisal, fixed assets, net of depreciation, in the general fixed assets account group were restated in the amount of \$65,449, from \$215,994 to \$281,443 as of June 30, 2002.

NOTE 4 - ACCOUNTABILITY

At June 30, 2003, the Cooperative Low Incidence and Alternative School Special Revenue Funds had deficit fund balances of \$238,400 and \$3,400, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the Nonexpendable Trust Fund (GAAP Basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (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
GAAP Basis	(\$156,485)	\$31,602
Adjustments:		
Revenue Accruals	(121,919)	75,609
Expenditure Accruals	229,102	47,017
Encumbrances	(79,535)	(281,373)
Advances	231,358	(231,358)
Budget Basis	\$102,521	(\$358,503)

Net Income/Excess of Revenues
Over Expenses
Nonexpendable Trust Fund

	Nonexpendable Trust
GAAP Basis	\$35,000
Adjustments	0
Budget Basis	\$35,000

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - 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's Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred 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 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits At fiscal year-end the carrying amount of the Educational Service Center's deposits was \$3,447,949 and the bank balance was \$3,694,713. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$3,594,713 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Unclassified	Carrying/ Fair Value
Federal Home Loan Bank Bonds	\$1,501,880	\$0	\$1,501,880
Federal Home Loan Mortgage Notes	501,890	0	501,890
Federal National Mortgage Association Bonds	1,499,380	0	1,499,380
STAROhio	0	625,313	625,313
Total	\$3,503,150	\$625,313	\$4,128,463

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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."*

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$7,576,412	\$0
Investment:		
Federal Home Loan		
Bank Bonds	(1,501,880)	1,501,880
Federal Home Loan		
Mortgage Notes	(501,890)	501,890
Federal National Mortgage		
Association Bonds	(1,499,380)	1,499,380
STAROhio	(625,313)	625,313
GASB Statement No. 3	\$3,447,949	\$4,128,463

NOTE 7 - STATE FUNDING

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

Part (B) of the budget is provided by the local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$7.40. This amount is deducted by the State Department of Education from that local 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 local school district's served by the Educational Service Center by \$40.52. This amount is provided from State resources.

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

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of accounts, intergovernmental, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund	
Tuition and Fees	\$13,135
Customer Services	2,075
Total General Fund	15,210
Special Revenue Funds:	
Pre-School Handicapped	3,004
Title VI B	42,499
Title I	101,293
Pre-School Grant	1,553
Total Special Revenue Funds	148,349
Total All Funds	\$163,559

NOTE 9 - FIXED ASSETS

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

<u>Asset Category</u>	<u>Restated Balance at 6/30/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/2003</u>
Furniture, Fixtures and Equipment	\$764,911	\$197,493	\$88,451	\$873,953
Less: Accumulated Depreciation				(531,299)
Total General Fixed Assets				\$342,654

NOTE 10 - 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 Harcum Hyre for property coverage. Insurance coverage includes the following:

Business Personal Property (\$1,000 deductible)	\$344,400
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South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - RISK MANAGEMENT (continued)

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 18)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Excess Liability:	
Limit per occurrence/per offense/per accident	\$2,000,000
Aggregate Limit	2,000,000
Underlying Coverage:	
Educational General Liability:	
Each Occurrence Limit	1,000,000
General Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Employer's Liability Stop-Gap:	
Each Accident Limit	1,000,000
Per Disease - Each Employee Limit	1,000,000
Per Disease - Policy Limit	1,000,000
Employee Benefits Liability:	
Each Offense Limit	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit	1,000,000
Errors and Omissions Injury Aggregate Limit	2,000,000
Defense Costs Cap	1,000,000
Automobile Liability:	
Each Accident Limit	1,000,000
Liability Hired - Non-Owned	1,000,000

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

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

The Educational Service Center participates in and is fiscal agent for the Scioto County Schools Council (the "Council"), a public entity shared risk pool (Note 17), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the Educational Service Center as fiscal agent, who in turns pays the claims.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - RISK MANAGEMENT (continued)

The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. Such claims and expenses shall be paid from the funds of the Council.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$78,036, \$48,324, and \$37,128, respectively; 98.77 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$957, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System of Ohio

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2003, 2002, and 2001 were \$402,287, \$213,041, and \$265,966, respectively; 89.38 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$22 made by the Educational Service Center and \$33 made by the plan members.

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2003, three members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$30,945 for fiscal year 2003.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$64,514.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment through a written agreement with the Board. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

C. Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permits deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - CAPITAL LEASES

During fiscal year 2003 and in prior years, the Educational Service Center has entered into capitalized leases for furniture, fixtures and equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of furniture, fixtures and equipment have been capitalized in the general fixed assets account group in the amount of \$133,435. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. The Educational Service Center entered into two new leases prior to the full retirement of the old leases. Therefore, the balance of \$27,236 remaining on the old leases was eliminated on the financial statements upon entering into the new leases. Principal payments in fiscal year 2003 totaled \$21,775 in the governmental funds.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - CAPITAL LEASES (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

Fiscal Year Ending June 30,	GLTDAG
2004	\$28,085
2005	28,085
2006	28,085
2007	28,085
2008	25,745
Total	138,085
Less: Amount Representing Interest	(6,765)
Present Value of Net Minimum Lease Payments	\$131,320

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03
Pension Obligation	\$5,874	\$8,829	\$5,874	\$8,829
Capital Leases	46,896	133,435	49,011	131,320
Compensated Absences	428,962	12,285	26,954	414,293
Total General Long-Term Obligations	\$481,732	\$154,549	\$81,839	\$554,442

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

Capital leases will be paid from the General Fund, Miscellaneous State Grants and Title I Special Revenue Funds.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$12,191 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Family and Children First Council of Scioto County - The Family and Children First Council of Scioto County is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Mental Retardation and Development Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2003. Continued existence of the council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Coalition of Rural and Appalachian Schools - The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the School Districts within that county. The Council provides various services for School District administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Council. The Educational Service Center paid \$300 to the Coalition for services provided during the year.

Pilasco-Ross Special Education Regional Resource Center - The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross County Career and Technology Center, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council - The Educational Service Center is a member and fiscal agent of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the Educational Service Center to form the Scioto County Schools Council. The overall objectives of the council are to formulate and administer programs of health and dental insurance for the benefit of the council members' employees and their dependents, to obtain lower costs for health and dental coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The Educational Service Center pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the Educational Service Center's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

NOTE 18 – INSURANCE PURCHASING POOL

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

NOTE 19 – INTERFUND TRANSACTIONS

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

<u>Fund Type/Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$525	\$0
Special Revenue Funds:		
EHA Pre-School Grant	0	525
Total All Funds	<u>\$525</u>	<u>\$525</u>

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 20 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

NOTE 21 - CONTINGENCIES

A. Grants

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

B. Litigation

The Educational Service Center is currently not party to any pending litigation.

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL

A. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

B. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

C. Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year.

The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

D. Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level 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 School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and 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 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 the most recent certificate of estimated resources. During the year, one supplemental appropriation was legally enacted; however, this amendment was not significant.

E. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a Capital Acquisition reserve. This reserve is required by State statute.

F. Cash

Cash on Hand At fiscal year-end, the School District had \$160 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

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 School District’s deposits was \$286,817 and the bank balance was \$769,803. Of the bank balance:

1. \$100,485 was covered by federal depository insurance; and
2. \$669,318 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 School District to a successful claim by the FDIC.

Investments The School District’s investments are required to be categorized to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the School District’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 School District’s name.

	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$5,072,000	\$5,072,000

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 Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*”

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$5,358,977	\$0
Cash on Hand	(160)	0
Investment:		
Repurchase Agreements	(5,072,000)	5,072,000
GASB Statement No. 3	\$286,817	\$5,072,000

G. Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$85,438 in the General Fund and \$30,963 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2002, was \$166,116 in the General Fund and \$60,414 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$605,517,010	79.23%	\$617,723,710	78.79%
Public Utility	75,689,630	9.90%	77,037,610	9.83%
Tangible Personal Property	83,091,270	10.87%	89,188,780	11.38%
Total Assessed Value	<u>\$764,297,910</u>	<u>100.00%</u>	<u>\$783,950,100</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$5.37		\$5.37	

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

H. Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	\$68,640
Special Revenue Fund:	
21st Century Grant	4,364,279
Total Intergovernmental Receivable	\$4,432,919

I. Fixed Assets

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

Furniture and Equipment	\$474,008
Less Accumulated Depreciation	(303,346)
Net Fixed Assets	\$170,662

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

Asset Category	Balance at 6/30/2002	Additions	Deletions	Balance at 6/30/2003
Land and Improvements	\$567,834	\$0	\$0	\$567,834
Buildings and Improvements	3,838,661	0	0	3,838,661
Furniture, Fixtures and Equipment	2,305,075	467,182	3,958	2,768,299
Textbooks	292,612	0	0	292,612
Assets Held Under Capital Lease	270,865	43,500	270,865	43,500
Vehicles	62,161	19,709	0	81,870
Totals	\$7,337,208	\$530,391	\$274,823	\$7,592,776

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

J. Risk Management

The School District 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 School District contracted with Nationwide Mutual Insurance Company for property and fleet insurance and liability insurance. Insurance coverage is provided as follows:

Building and Contents replacement cost (\$25,000 deductible)	\$16,890,141
Boiler and Machinery (\$25,000 deductible)	No limit
Automobile Liability (\$100 deductible)	100,000
General Liability:	
Per occurrence	2,000,000
Total per year	5,000,000

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

K. Defined Benefit Pension Plan

1. School Employees Retirement System

The School District's contributions to SERS for the fiscal years ending June 30, 2003, 2002, and 2001 were \$64,331, \$52,443, and \$60,197, respectively. 38 percent has been contributed for fiscal year 2003, and 100 percent for the fiscal years 2002 and 2001. \$40,032, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

2. State Teachers Retirement System

The School District's contribution for pension obligations to STRS for the fiscal years ending June 30, 2003, 2002, and 2001 were \$485,257, \$404,053, and \$377,943, respectively. 88 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$42,450, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

L. Postemployment Benefits

For fiscal year 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$37,132 during fiscal year 2003.

For the School District, the amounts contributed to fund postemployment healthcare benefits under SERS, including the surcharge, during fiscal year 2002 equaled \$150,318.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

M. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 150 days for all personnel. Upon retirement, payment is made for thirty percent of accrued, but unused sick leave credit to a maximum of 45 days for classified employees and 45 days for certified employees.

N. Other Employee Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource.

O. Long-Term Obligations

Scioto County JVS Energy Conservation Loan - On December 1, 1995, the School District issued \$1,200,000 in unvoted general obligation notes for the purpose of providing energy conservation measures, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for an eight year period with final maturity during fiscal year 2004. The debt will be retired from property taxes.

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

	Amount Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03
	<u>6/30/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/03</u>
<u>Long-Term Loans:</u>				
1995 Energy Conservation Loan, 6.20%	\$260,000	\$0	\$130,000	\$130,000
<u>General Long-Term Obligations:</u>				
Pension Obligation	119,612	69,240	119,612	69,240
Capital Leases	12,557	43,500	12,557	43,500
Compensated Absences	315,614	87,891	0	403,505
Total Long-Term Obligations	<u>\$707,783</u>	<u>\$200,631</u>	<u>\$262,169</u>	<u>\$646,245</u>

The School District's voted legal debt margin was \$70,425,509 with an unvoted debt margin of \$783,950 at June 30, 2003.

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2004	<u>\$130,000</u>	<u>\$4,030</u>	<u>\$134,030</u>

Debt outstanding on June 30, 2003 consisted of the following:

Date of Issue	Interest Rate	Maturity Date	Balance 07/01/02	Additions	Deletions	Balance 06/30/03
07/07/99	5.59%	10/01/04	<u>\$840,000</u>	<u>\$0</u>	<u>\$280,000</u>	<u>\$560,000</u>

Outstanding Tax Anticipation Notes were issued for school building improvements. Tax Anticipation Notes are direct obligations of the District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District.

A summary of the School District's future amortization of debt funding requirements as of June 30, 2003, follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2004	<u>\$280,000</u>	<u>\$23,478</u>	<u>\$303,478</u>
2005	<u>280,000</u>	<u>7,826</u>	<u>287,826</u>
Total	<u>\$560,000</u>	<u>\$31,304</u>	<u>\$591,304</u>

South Central Ohio Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 22 – COMPONENT UNIT – SCIOTO COUNTY JOINT VOCATIONAL SCHOOL
(continued)

P. Segment Information For Enterprise Funds

The School District maintains two enterprise funds to account for the operations of food service and adult education. The table below reflects the more significant financial data relating to the enterprise funds of the School District as of and for the fiscal year ended June 30, 2003.

	<u>Food Service</u>	<u>Adult Education</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$62,841	\$995,216	\$1,058,057
Operating Expenses			
less Depreciation	281,024	2,083,764	2,364,788
Depreciation Expense	6,772	29,604	36,376
Operating Loss	(224,954)	(1,118,153)	(1,343,107)
Donated Commodities	15,878	0	15,878
Operating Grants	136,860	845,158	982,018
Operating Transfers-In	84,994	0	84,994
Net Income (Loss)	13,469	(272,994)	(259,525)
Net Working Capital	(15,887)	364,106	348,219
Total Assets	83,133	699,347	782,480
Total Equity	62,266	456,615	518,881
Encumbrances 2003	0	47,271	47,271

Q. Set-aside Calculations and Reserves

The following information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Total</u>
Cash Balance as of June 30, 2002	\$0	\$267,767	\$267,767
Current Year Set-aside Requirement	70,666	70,666	141,332
Offset Credits and Prior Year Carryover	(728,387)	0	(728,387)
Qualifying Expenditures	(400,837)	0	(400,837)
Balance Carried Forward to FY 2004	<u>(\$1,058,558)</u>	<u>\$338,433</u>	<u>(\$720,125)</u>
Set-aside Reserve Cash Balance as of June 30, 2003	<u>\$0</u>	<u>\$338,433</u>	<u>\$338,433</u>

The School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks Reserve. These extra amounts may be carried forward and used to reduce the set-aside requirements of future years.

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**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program - CAFS	N/A	93.778	\$ 132,678	\$ 132,678
Total U.S. Department of Health and Human Services			<u>132,678</u>	<u>132,678</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States	6BSD-2003-P	84.027	15,000	10,064
Special Education - Preschool Grants	PGS1-2002-P PGS1-2003-P	84.173	41,530 <u>57,438</u>	41,530 <u>57,963</u>
Total Special Education - Preschool Grants			<u>98,968</u>	<u>99,493</u>
Total Special Education Cluster			113,968	109,557
Safe and Drug Free Schools and Communities	T4S1-2003	84.184C	5,930	5,930
Twenty-First Century Community Learning Centers	T1S1-2003	84.287	174,604	143,627
Title I Grants to Local Educational Agencies	C1ST-2002-P C1ST-2003-P	84.010	64,355 <u>126,980</u>	64,355 <u>96,890</u>
Total Title I Grants to Local Educational Agencies			191,335	161,245
Comprehensive School Reform Demonstration	RFS3-2001	84.332	14,560	20,800
Teacher Quality Enhancement Grants	QES1-2002	84.336	300	0
Goals 2000	G2S1-01/02	84.276	<u>(50,000)</u>	<u>35,089</u>
Total U.S Department of Education			<u>450,697</u>	<u>476,248</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 583,375</u>	<u>\$ 608,926</u>

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

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C – REFUND OF FEDERAL RECEIPTS

The Educational Service Center was allocated \$100,000 according to the grant agreement for CFDA # 84.276. The State disbursed \$150,000 to the Educational Service Center for the Grant. As a result, the Educational Service Center refunded \$50,000 in prior year receipts to the State. This refund is reported as a negative receipt on the accompanying Schedule of Federal Awards Receipts and Expenditures.



Auditor of State Betty Montgomery

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

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

We have audited the accompanying general purpose financial statements of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 24, 2004. We did not audit the financial statements of the Scioto County Joint Vocational School District, the Educational Service Center's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts discretely presented for the Scioto County Joint Vocational School District is based upon the report of other auditors. We conducted our audit in accordance with the 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 general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 general purpose 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 February 24, 2004.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
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This report is intended for the information and use of the audit committee, management, the Board of Education and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 24, 2004



Auditor of State Betty Montgomery

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

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

Compliance

We have audited the compliance of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to 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. 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, the Educational Service Center did not comply with requirements regarding Participation of Private School Children that are applicable to its Twenty-First Century Community Learning Centers Grant. 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.

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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. However, we noted other matters involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated February 24, 2004.

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



Betty Montgomery
Auditor of State

February 24, 2004

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Was 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 material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Was 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 Programs' Compliance Opinion	Unqualified – Title I Qualified – Twenty-First Century Community Learning Centers
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I - CFDA #84.010 Twenty-First Century Community Learning Centers – CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

This audit of the South Central Ohio Educational Service Center, Scioto County, for the fiscal year ended June 30, 2003 contained no findings that are required to be reported in accordance with GAGAS.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

3. FINDINGS FOR FEDERAL AWARDS

1. Participation of Private School Children

Finding Number	2003-001
CFDA Title and Number	Twenty-First Century Community Learning Centers – CFDA #84.287
Federal Award Number / Year	2003
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Special Tests and Provisions

20 U.S.C. 7881 requires a State Educational Agency, Local Educational Agency, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program to provide eligible private school children and their teachers or other educational personnel with equitable special education services or other benefits that address their needs under these programs. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials.

The South Central Ohio Educational Service Center, Oak Hill Union Local School District and Wellston City School District jointly applied for the Twenty-first Century Community Learning Center Grant. The Twenty-First Century Community Learning Center Grant is a program to which the above code requirements apply. There was no communication with Saints Peter and Paul Catholic School in Wellston, Ohio, concerning the Twenty-First Century Community Learning Center Grant during fiscal year 2003. As a result, the Catholic School was not informed of the availability of after school mall services available to its students.

We recommend immediate communication with Saints Peter and Paul Catholic School in Wellston regarding the Twenty-First Century Community Learning Center Grant.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The site coordinators will communicate with private schools in the area.	June 30, 2004	Paul Bauer, Grant Coordinator

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**Auditor of State
Betty Montgomery**

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SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 18, 2004**