Clermont County Educational Service Center

Clermont County

Single Audit

July 1 , 2002 Through June 30, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER, CPAs, INC.
CERTIFIED PUBLIC ACCOUNTANTS
528 South West Street, P.O. Box 687
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Auditor of State
Betty Montgomery

Board of Education
Clermont County Educational Service Center
Batavia, Ohio

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 7, 2004

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CLERMONT COUNTY EDUCATIONAL SERVICE CENTER
CLERMONT COUNTY

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Member American Institute of Certified Public Accountants Ohio Society of Certified Public Accountants

Independent Auditors' Report

Members of the Board
Clermont County Educational Service Center
2400 Clermont Center Dr. Ste. 202
Batavia, Ohio 45103

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2003, on our consideration of the Clermont County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

November 7, 2003

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

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Enterprise
Assets and Other Debits:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	$ 3,501,590	$ 19,226	$ 99,551	$ 20,476
Receivables:				
Accounts	725,735	-	-	-
Intergovernmental	2,646	96,693	-	-
Interfund Receivable	56,335	-	-	-
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	-	-	-	-
Other Debits:				
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-	-
Total Assets and Other Debits	4,286,306	115,919	99,551	20,476
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts Payable	210,553	18,521	-	-
Accrued Wages and Benefits	1,403,276	25,964	-	-
Compensated Absences Payable	21,191	407	-	-
Interfund Payable	-	56,335	-	-
Deferred Revenue	-	32,950	-	-
Total Liabilities	1,635,020	134,177	-	-
Fund Equity and Other Credits:				
Investment in General Fixed Assets	-	-	-	-
Retained Earnings:				
Unreserved	-	-	-	20,476
Fund Balance:				
Reserved for Encumbrances	41,279	2,053	53,867	-
Unreserved & Undesignated	2,610,007	(20,311)	45,684	-
Total Fund Equity (Deficit) and Other Credits	2,651,286	(18,258)	99,551	20,476
Total Liabilities, Fund Equity & Other Credits	$ 4,286,306	$ 115,919	$ 99,551	$ 20,476

See accompanying notes to the general-purpose financial statements.

Account Groups		
General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$ -	$ -	$ 3,640,843
-	-	725,735
-	-	99,339
-	-	56,335
962,682	-	962,682
-	421,646	421,646
962,682	421,646	5,906,580
-	-	229,074
-	48,463	1,477,703
-	373,183	394,781
-	-	56,335
-	-	32,950
-	421,646	2,190,843
962,682	-	962,682
-	-	20,476
-	-	97,199
-	-	2,635,380
962,682	-	3,715,737
$ 962,682	$ 421,646	$ 5,906,580

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

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Intergovernmental	$ 2,893,529	$ 497,810	$ 96,489	$ 3,487,828
Interest	51,720	-	-	51,720
Tuition and Fees	9,442,232	-	-	9,442,232
Miscellaneous	438,115	-	-	438,115
Total Revenues	12,825,596	497,810	96,489	13,419,895
Expenditures:				
Current:				
Instruction:				
Regular	306,450	47,503	-	353,953
Special	5,013,896	-	-	5,013,896
Other	54,729	131,381	-	186,110
Support Services:				
Pupils	3,077,504	-	-	3,077,504
Instructional Staff	3,564,372	333,787	107,530	4,005,689
Board of Education	85,887	-	-	85,887
Administration	388,617	-	-	388,617
Fiscal	193,325	-	-	193,325
Central	30,076	-	-	30,076
Total Expenditures	12,714,856	512,671	107,530	13,335,057
Excess of Revenues Over (Under) Expenditures	110,740	(14,861)	(11,041)	84,838
Other Financing Sources (Uses):				
Operating Transfers Out	(10,000)	-	-	(10,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	100,740	(14,861)	(11,041)	74,838
Fund Balances (Deficits) at Beginning of Year	2,550,546	(3,397)	110,592	2,657,741
Fund Balances (Deficits) at End of Year	$ 2,651,286	$ (18,258)	$ 99,551	$ 2,732,579

See accompanying notes to the general-purpose financial statements.

Clermont County 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			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	$ 2,669,285	$ 2,669,285	$ -	$ 506,350	$ 506,350	$ -
Interest	51,720	51,720	-	-	-	-
Tuition and Fees	8,979,940	8,979,940	-	-	-	-
Miscellaneous	717,466	717,466	-	-	-	-
Total Revenues	12,418,411	12,418,411	-	506,350	506,350	-
Expenditures:						
Current:						
Instruction:						
Regular	330,800	330,800	-	47,704	47,704	-
Special	4,915,704	4,915,704	-	-	-	-
Other	56,541	56,541	-	133,759	133,759	-
Support Services:						
Pupils	2,986,350	2,986,350	-	-	-	-
Instructional Staff	3,499,453	3,499,453	-	337,730	337,730	-
Board of Education	97,032	97,032	-	-	-	-
Administration	377,587	377,587	-	-	-	-
Fiscal	194,004	194,004	-	-	-	-
Operation and Maintenance of Plant	-	-	-	-	-	-
Central	32,458	32,458	-	-	-	-
Total Expenditures	12,489,929	12,489,929	-	519,193	519,193	-
Excess of Revenues Over (Under) Expenditures	(71,518)	(71,518)	-	(12,843)	(12,843)	-
Other Financing Sources (Uses):						
Operating Transfers Out	(10,000)	(10,000)	-	-	-	-
Total Other Financing Sources (Uses)	(10,000)	(10,000)	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(81,518)	(81,518)	-	(12,843)	(12,843)	-
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	3,587,964	3,587,964	-	(28,656)	(28,656)	-
Fund Balances (Deficit) at End of Year	$ 3,506,446	$ 3,506,446	$ -	$ (41,499)	$ (41,499)	$ -

See accompanying notes to the general-purpose financial statements.

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$ 96,489	$ 96,489	$ -	$ 3,272,124	$ 3,272,124	$ -
-	-	-	51,720	51,720	-
-	-	-	8,979,940	8,979,940	-
65,702	65,702	-	783,168	783,168	-
162,191	162,191	-	13,086,952	13,086,952	-
-	-	-	378,504	378,504	-
-	-	-	4,915,704	4,915,704	-
-	-	-	190,300	190,300	-
-	-	-	2,986,350	2,986,350	-
179,380	179,380	-	4,016,563	4,016,563	-
-	-	-	97,032	97,032	-
-	-	-	377,587	377,587	-
-	-	-	194,004	194,004	-
-	-	-	-	-	-
-	-	-	32,458	32,458	-
179,380	179,380	-	13,188,502	13,188,502	-
(17,189)	(17,189)	-	(101,550)	(101,550)	-
-	-	-	(10,000)	(10,000)	-
-	-	-	(10,000)	(10,000)	-
(17,189)	(17,189)	-	(111,550)	(111,550)	-
62,872	62,872	-	3,622,180	3,622,180	-
$ 45,683	$ 45,683	$ -	$ 3,510,630	$ 3,510,630	$ -

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

	Enterprise
Operating Revenues:	
Charges For Services	$ 11,728
Total Operating Revenue	11,728
Operating Expenses:	
Purchased Services	40,019
Total Operating Expenses	40,019
Operating Loss	(28,291)
Non-Operating Revenues :	
Grants - State & Local	1,555
Grants - Federal	27,070
Total Non-Operating Revenues	28,625
Income (Loss) before Operating Transfers	334
Operating Transfer In	10,000
Net Income	10,334
Retained Earnings at Beginning of Year	10,142
Retained Earnings at End of Year	$ 20,476

See accompanying notes to the general-purpose financial statements.

Clermont County Educational Service Center
Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 2003

		Enterprise
Increase (Decrease) in Cash and Cash Equivalents:		
Cash Flows from Operating Activities		
Cash Received from Charges For Services	$	11,728
Cash Payments for Contract Services		(49,652)
Net Cash Used for Operating Activities		(37,924)
Cash Flows from Noncapital Financing Activities:		
Cash Received from Other Funds		10,000
Cash Received from Operating Grants		28,625
Net Cash Provided by Non-Capital Financing Activities		38,625
Net Increase in Cash and Cash Equivalents		701
Cash and Cash Equivalents at Beginning of Year		19,775
Cash and Cash Equivalents at End of Year		20,476
Reconciliation of Operating Income to Net Cash Used by Operating Activities:		
Operating Loss		(28,291)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Changes in Assets and Liabilities		
Decrease in Accounts Payable		(9,633)
Net Cash Used by Operating Activities	$	(37,924)

See accompanying notes to the general-purpose financial statements.

NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY

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

Description of the Entity:

The Center is a Governing Board of an Educational Service Center as defined by Am. Sub. H.B. 117, 121st General Assembly. The Center is an administrative entity providing supervision and certain other services to the local Centers located within Clermont County. It currently operates under an elected Board of Educational Service Center (5 members) and provides special education to handicapped students. The Center has its own fiscal officer and is considered a separate entity and issues its financial statements.

Reporting Entity:

For financial reporting purposes, the Center's financial statements include all funds, account groups, and component units for which the Center is financially accountable based upon criteria set forth in GASB Statement 14. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Center) are financially accountable. The Center would consider an organization to be a component unit if:

1. The Center appointed a voting majority of the organization's governing body; and (a) was able to impose its will on that organization; or (b) there was a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Center; or

2. The organization was fiscally dependent upon the Center; or

3. The nature of the relationship between the Center and the organization was such that the exclusion from the financial reporting entity would render the financial statements misleading.

The Center included no component units in the accompanying financial statements.

The Center is associated with one jointly governed and two public entity risk pools. These organizations are discussed in Note 13 and Note 14 to the general purpose financial statements. These organizations are:

Jointly Governed:
Hamilton/Clermont Cooperative Association

Public Entity Risk Pools:
Ohio School Boards Association Workers' Compensation Group Rating Program
Clermont County Health Trust

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis Of Presentation - Fund Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation - Fund Accounting (Continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities 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 Center are grouped into the following generic fund types under the broad fund categories governmental and proprietary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the Center's governmental fund types:

> *General Fund* - The General Fund is the operating fund of the 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 Center for any purpose provided it is expended or transferred according to the general laws of Ohio.
>
> *Special Revenue Funds* - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.
>
> *Capital Projects Fund* - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type:

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

> *Enterprise Fund* - The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 Center, other than those accounted for in the proprietary fund.
>
> *General Long-Term Obligations Account Group* - This account group is established to account for all long-term obligations of the Center except those accounted for in the proprietary fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

Revenues - Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year end.

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

The modified accrual basis is utilized for reporting purposes by the governmental fund types. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest, grants, tuition and fees.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Fees for contractual services, provided by the Center, received, but not earned, as of June 30, 2003, have been recorded as deferred revenues.

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the budget and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The appropriations resolution are subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Governing Board.

SF-5:

Annually, the Superintendent and Treasurer submit to the Governing Board a proposed County Board of Education, SF-5, budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing 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.

Appropriations:

By October 1, the annual appropriation resolution must be legally enacted by the Governing Board of the fund, function, and object level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenses of the Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Governing Board. The Center may pass supplemental fund appropriations. During the year, several supplemental appropriations were legally enacted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

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.

D. Cash and Cash Equivalents

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents (Continued)

During fiscal year 2003, investments were limited to STAR Ohio and repurchase agreements. Except for nonparticipating investment contracts, investments are recorded at fair value that is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Governing Board 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 $51,720.

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

E. Fixed Assets and Depreciation

General fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date received. The Center follows the policy of not capitalizing assets with a cost of less than $500. No depreciation is recognized for assets in the General Fixed Assets Account Group. The Center does not possess any infrastructure.

F. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and the funding is available. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. Interfund Transactions

During the course of normal operations the Center had transactions between funds. The most significant included routine transfers of resources from one fund to another fund through which resources to be expended are recorded as operating transfers.

H. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's right to receive compensation is attributable to services already rendered.

2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences (Continued)

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 Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees.

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 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 Center's termination policy. The Center records all liability for accumulated unused sick leave for classified employees after 20 years of current service with the Center and for certified employees and administrators after 20 years of service.

For governmental funds, the compensated absences that are expected to be liquidated using expendable available resources are reported as an expenditure and a fund liability of the respective governmental fund. Amounts that are not expected to be liquidated with expendable available financial resources are reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Long-Term Obligations

Long-term debt is reported as a liability of the general long-term obligations account group when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term obligations financed by proprietary funds are reported as liabilities in the proprietary fund. The Center had long-term obligations at June 30, 2003 as disclosed in Note 5.

J. Fund Equity

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

K. Memorandum Only - Total Columns

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

L. Proprietary Fund Accounting

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." The Center applies all GASB pronouncements and all Financial Accounting Standards Board Statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Estimates

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

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." State statutes classify monies held by the Center into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio;

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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);

7. Certain bankers' acceptance 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; and

8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 Center's deposits was ($103,330) and the bank balance was $84,616. Of the bank balance $84,616 was covered by federal depository insurance.

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

Investment	Category Three	Carrying Value	Market Value
Repurchase Agreement	$2,437,627	$2,437,627	$2,437,627
STAR Ohio	0	1,306,546	1,306,546
Totals	$2,437,627	$3,744,173	$3,744,173

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$3,640,843	$0
Repurchase Agreement	(2,437,627)	2,437,627
STAR Ohio	(1,306,546)	1,306,546
GASB Statement No. 3	$(103,330)	$3,744,173

NOTE 4 - FIXED ASSETS

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

Asset Category	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
Furniture, Fixtures and Equipment	$889,063	$105,519	$31,900	$962,682

NOTE 5 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/02	Increase	Decrease	Balance at 6/30/03
Compensated Absences	$267,473	$105,710	$0	$373,183
Intergovernmental Payables	43,829	48,463	43,829	48,463
Total General Long-Term Obligations	$311,302	$154,173	$43,829	$421,646

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Process

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

- Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis) & expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
- Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	$100,740	($14,861)	($11,041)
Revenue Accruals	(407,185)	8,540	65,702
Expenditure Accruals	276,407	(2,132)	(17,983)
Encumbrances	(51,480)	(4,390)	(53,867)
Budget Basis	($81,518)	($12,843)	($17,189)

NOTE 7 - INTERFUND TRANSACTIONS

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

Fund Type/Fund	Asset Interfund Receivable	Liability Interfund Payable
General Fund	$ 56,335	$ 0
Special Revenue Funds:		
EHA Pre-School Grants	0	56,335
Total Special Revenue Funds	0	56,335
Total All Funds	$ 56,335	$ 56,335

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 5.55 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 Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were $345,659, $297,054, and $263,450, respectively; 80 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2002 and 2001. $68,676 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was required to contribute 14 percent; 8 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were $89,408, $825,745, and $766,683, respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. $135,025 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund.

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their 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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at $12,400.

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.

NOTE 10 - OPERATING LEASE

The Clermont County Commissioners are responsible for providing space for the office of the Superintendent at the Clermont County Education Service Center. The Center rented space that was determined to be beyond the typical office of the Superintendent from the Clermont County Commissioners for the 2002 fiscal year. The total rent paid for fiscal year 2002 was $17,627.

Pursuant to ORC Section 3319.19 (D), the Board of County Commissioners is responsible for 80% of the final total estimated cost to provide and equip the Office of the Superintendent of the Educational Service Center and to provide heat, light, water and janitorial services for the period beginning 07/01/2002 and ending 06/30/2003; and decline by 20% each year until the Service Center bears 100% of the cost beginning in fiscal year 2007.

The Educational Service Center has agreed to rent an additional 1,367 square feet at a rate to be negotiated each year.

NOTE 11- RISK MANAGEMENT

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

During fiscal year 2003, the Center contracted with Citizens Insurance for general property insurance. The coverage has a $1,000 deductible with a $725,000 limit of insurance.

Professional liability is protected by The Ohio School Plan with $1,000,000 each occurrence, $3,000,000 aggregate limit. The Center also has an excess liability insurance policy through Twin City Fire Insurance Co. with $2,000,000 each occurrence, $2,000,000 aggregate.

Vehicles are covered by Erie Insurance Company with a $500 deductible for comprehensive and a $500 deductible for collision.

Public officials bond insurance is provided by The Wausau. The Treasurer and Assistant Treasurer are covered by bonds in the amount of $20,000.

NOTE 11- RISK MANAGEMENT (Continued)

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.

For fiscal year 2003, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Centers is calculated as one experience and a common premium rate is applied to all Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2003, the Center participated in the Clermont County Health Trust (the Trust), a public entity risk pool (Note 14) in order to provide life, sick, accident, and other benefits to employees, their dependents, and designated beneficiaries and to set aside funds for such purposes. Any of such benefits, as the Trustee may determine, may be provided in whole or in part through on or more group insurance policies.

NOTE 12 - COMPLIANCE

State statute requires all funds to have expenditures and encumbrances within approved appropriation limits. All funds of the Center had expenditures and encumbrances within the approved appropriations.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

Hamilton Clermont Cooperative Association - The Center is a participant in the Hamilton Clermont Cooperative Association (H/CCA) which is a computer consortium. H/CCA is an association of 24 public school districts within the boundaries of Hamilton and Clermont 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 Centers. The governing board of H/CCA consists of the superintendent and/or treasurers of the participating members. H/CCA is not accumulating significant financial resources nor is it experiencing fiscal distress that may cause an additional financial burden on members in the future. The Center paid H/CCA $14,620 for services provided during the year. Financial information can be obtained from the fiscal agent, the H/CCA of Boards of Education, Al Porter, Director, at 7615 Harrison Avenue, Cincinnati, Ohio 45231-3107.

NOTE 14 - INSURANCE PURCHASING POOLS

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

Clermont County Health Trust - The Clermont County Health Trust (Trust), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consist of one representative form each of the participating members and are elected by the vote of a majority of the member school districts.

NOTE 14 - INSURANCE PURCHASING POOLS (Continued)

The Center pays premiums to a third party administrator, which in turn buys the insurance policies from various insurance companies. Upon termination, the Center shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The Center may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained form the Clermont County Health Trust at P.O. Box 526, Middletown, Ohio 45042.

NOTE 15 - SCHOOL FUNDING COURT DECISION

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

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

NOTE 16 - CONTINGENCIES

A. Grants

The 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. Management is unable to estimate possible claims from such audits until the audits have been completed. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2003.

B. Litigation

The Center is not party to legal proceedings.

Clermont County Educational Service Center
Clermont County

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
United States Department of Agriculture				
Passed through Ohio Department of Education				
National School Lunch Program	LL-P1/P4	10.555	$27,070	$27,070
United States Department of Education				
Passed through Ohio Department of Education				
Adult and Community Education	AB-S1	84.002	169,580	157,697
Special Education Preschool Grants	PG-S1	84.173	126,531	111,298
Total United States Department of Education			296,111	268,995
United States Department of Health & Human Services				
Passed through the County Board of MRDD				
Medical Assistance Program	N/A	93.778	221,597	221,597
Total Federal Financial Assistance			$544,778	$517,662

N/A - not available

See Accompanying Notes to Schedule of Federal Awards Expenditures

CLERMONT COUNTY EDUCATIONAL SERVICE CENTER
CLERMONT COUNTY
JUNE 30, 2003

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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Member Ohio Society of Certified Public Accountants

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

Members of the Board
Clermont County Educational Service Center
2400 Clermont Center Dr Ste 202
Batavia, Ohio 45103

We have audited the financial statements of the Clermont County Educational Service Center, Clermont County, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clermont County Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

November 7, 2003

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

Members of the Board
Clermont County Educational Service Center
2400 Clermont Center Dr Ste 202
Batavia, Ohio 45103

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

November 7, 2003

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

CLERMONT COUNTY EDUCATIONAL SERVICE CENTER
CLERMONT COUNTY
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

CLERMONT COUNTY EDUCATIONAL SERVICE CENTER
CLERMONT COUNTY
JUNE 30, 2003

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

Finding Number	None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

Auditor of State
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CLERMONT COUNTY EDUCATIONAL SERVICE CENTER

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 22, 2004