



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Shelby County, (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund, Alternative School fund, and the Title VI-B fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, on our consideration of the 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Center's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic 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 11, 2005

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Shelby County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$52,937 which represents a 6.31% increase from 2003.
- General revenues accounted for \$514,614 in revenue or 17.06% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,501,362 or 82.94% of total revenues of \$3,015,976.
- The Center had \$2,963,039 in expenses related to governmental activities; \$2,501,362 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$514,614 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, Alternative School fund and Title VI-B fund. The general fund had \$2,001,277 in revenues and other financing sources and \$1,921,457 in expenditures. During fiscal year 2004, the general fund's fund balance increased \$79,820 from \$644,702 to \$724,522.
- The Alternative School fund had \$354,060 in revenues and \$295,855 in expenditures. During fiscal year 2004, the Alternative School fund's fund balance increased \$58,205 from \$129,662 to \$187,867.
- The Title VI-B fund had \$560,326 in revenues and \$612,261 in expenditures. During fiscal year 2004, the Title VI-B fund's fund balance decreased \$51,935 from (\$7,693) to (\$59,628).

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Assets and Statement of Activities** provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the General fund, Alternative School fund and Title VI-B fund are by far the most significant funds, and the only governmental funds reported as major funds.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-20 of this report.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee, or fiduciary, for scholarship programs. This activity is presented as a private-purpose trust fund. The District also reports the external portion of monies invested on behalf of the Western Ohio Computer Organization and for Sidney City Schools, as its fiscal agent, in a separate investment trust fund. All of the Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-45 of this report.

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the Center's net assets for 2004.

	Net Assets Governmental Activities 2004
<u>Assets</u>	
Current and other assets	\$1,171,866
Capital assets	157,849
Total assets	<u>1,329,715</u>
<u>Liabilities</u>	
Current liabilities	333,572
Long-term liabilities	104,730
Total liabilities	<u>438,302</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	104,740
Unrestricted	786,673
Total net assets	<u><u>\$891,413</u></u>

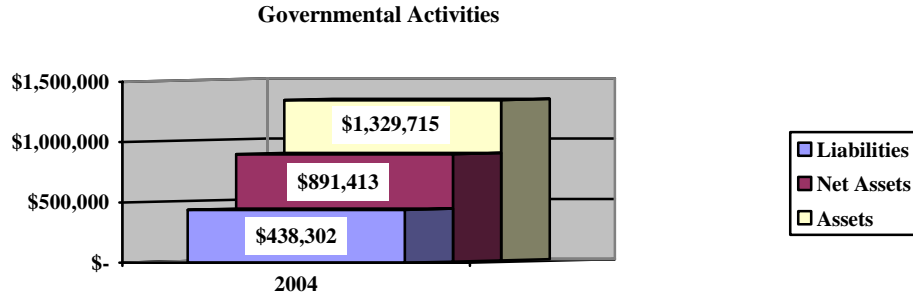
**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Center's assets exceeded liabilities by \$891,413. Of this total, \$786,673 is unrestricted in use.

At year-end, capital assets represented 11.87% of total assets. Capital assets include furniture and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$104,740. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The remaining balance of unrestricted net assets of \$786,673 may be used to meet the Center's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the Center has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

	Change in Net Assets
	Governmental
	Activities
	2004
	<hr/>
Revenues	
Program revenues:	
Charges for services and sales	\$ 1,421,820
Operating grants and contributions	1,067,979
Capital grants and contributions	11,563
General revenues:	
Grants and entitlements	504,956
Investment earnings	7,815
Other	1,843
Total revenues	<hr/> 3,015,976 <hr/>

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

<u>Expenses</u>	Change in Net Assets
	Governmental
	Activities
	2004
Program expenses:	
Instruction:	
Regular	\$319,462
Special	599,133
Support services:	
Pupil	744,570
Instructional staff	718,135
Board of education	30,005
Administration	268,735
Fiscal	94,037
Business	14,612
Operations and maintenance	9,568
Pupil transportation	2,039
Central	160,090
Interest and fiscal charges	2,653
Total expenses	<u>2,963,039</u>
Increase in net assets	<u><u>\$52,937</u></u>

Governmental Activities

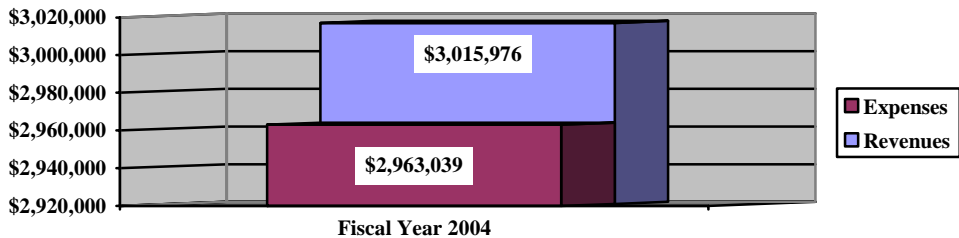
Net assets of the Center's governmental activities increased \$52,937. Total governmental expenses of \$2,963,039 were offset by program revenues of \$2,501,362 and general revenues of \$514,614. Program revenues supported 84.42% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and contract services. These revenue sources represent 47.14% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled \$918,595 or 31.01% of total governmental expenses for fiscal 2004.

The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

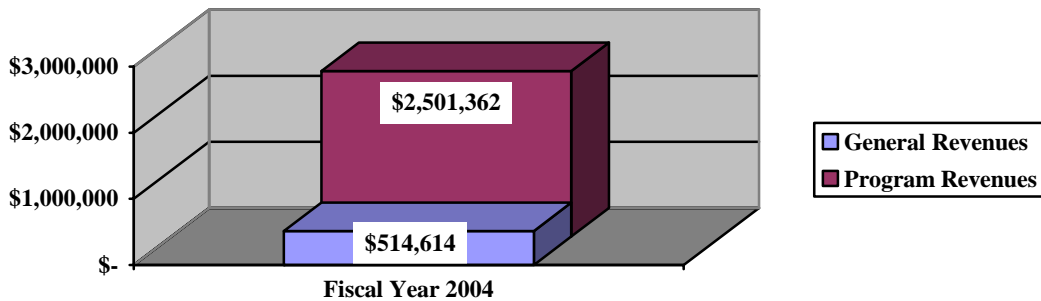
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$319,462	(\$44,621)
Special	599,133	76,292
Support services:		
Pupil	744,570	73,384
Instructional staff	718,135	62,083
Board of education	30,005	30,005
Administration	268,735	1,412
Fiscal	94,037	94,037
Business	14,612	14,612
Operations and maintenance	9,568	6,024
Pupil transportation	2,039	269
Central	160,090	145,527
Interest and fiscal charges	2,653	2,653
Total expenses	\$2,963,039	\$461,677

For all governmental activities, program revenue support is 84.42%. The primary support of the Center is contracted fees for services provided to other districts.

The graph below presents the Center's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The Center's Funds

The Center's governmental funds reported a combined fund balance of \$860,531, which is higher than last year's total of \$777,488. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 724,522	\$ 644,702	\$ 79,820	12.38 %
Alternative School	187,867	129,662	58,205	44.89 %
Title VI-B	(59,628)	(7,693)	(51,935)	(675.09) %
Other Governmental	<u>7,770</u>	<u>10,817</u>	<u>(3,047)</u>	(28.17) %
Total	<u>\$ 860,531</u>	<u>\$ 777,488</u>	<u>\$ 83,043</u>	10.68 %

General Fund

The Center's general fund balance increased by \$79,820 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to an increase in intergovernmental revenue and a decrease in support services expenditures.

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Revenues				
Contract services	\$1,433,544	\$1,462,544	(\$29,000)	(1.98) %
Earnings on investments	7,815	13,942	(6,127)	(43.95) %
Intergovernmental	504,956	477,291	27,665	5.80 %
Proceeds from Capital Lease	53,119		53,119	100.00 %
Other revenues	<u>1,843</u>	<u>21,301</u>	<u>(19,458)</u>	(91.35) %
Total	<u>2,001,277</u>	<u>1,975,078</u>	<u>26,199</u>	1.33 %
Expenditures				
Instruction	200,846	233,555	(32,709)	(14.00) %
Support services	1,657,828	1,699,755	(41,927)	(2.47) %
Capital outlay	53,119		53,119	100.00 %
Debt service	<u>9,664</u>	<u>12,859</u>	<u>(3,195)</u>	(24.85) %
Total	<u>\$1,921,457</u>	<u>\$1,946,169</u>	<u>(\$24,712)</u>	(1.27) %

Alternative School Fund

The Alternative School fund had \$354,060 in revenues and \$295,855 in expenditures. During fiscal year 2004, the Alternative School fund's fund balance increased \$58,205 from \$129,662 to \$187,867.

Title VI-B Fund

The Title VI-B fund had \$560,326 in revenues and \$612,261 in expenditures. During fiscal year 2004, the Title VI-B fund's fund balance decreased \$51,935 from (\$7,693) to (\$59,628).

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The Center's budget is prepared based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$1,890,250 and final budgeted revenues and other financing sources were \$1,953,700. Actual revenues and other financing sources for fiscal 2004 was \$1,906,944. This represents a \$16,694 increase over original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$2,526,611 were decreased to \$2,474,811 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$1,877,562, which is \$597,249 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Center had \$157,849 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	Governmental Activities	
	2004	2003
Furniture and equipment	<u>\$157,849</u>	<u>\$124,596</u>

The overall increase in capital assets of \$33,253 is due to capital outlays of \$58,336 exceeding depreciation expense of \$22,904 and disposals of \$2,179 in the fiscal year. See Note 8 to the basic financial statements for additional information on the Center's capital assets.

Debt Administration

At June 30, 2004, the Center had \$53,109 in capital lease obligations outstanding. Of this total, \$9,983 is due within one year and \$43,126 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2004	Governmental Activities 2003
	<u>2004</u>	<u>2003</u>
Capital lease obligations	<u>\$53,109</u>	<u>\$32,502</u>

See Note 10 to the basic financial statements for additional information on the Center's debt administration.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Current Financial Related Activities

Overall, the Center is strong financially. As the preceding information shows, the Center relies heavily on contracts with local and city districts in Shelby County, state foundation revenue, and grants. Contracts with Shelby County districts are expected to increase slightly in FY 2005 due to inflation on the cost of doing business. Continuing contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the Center is not without challenges.

The first challenge is the legislation regarding CAFS and the implementation of that system by the Ohio Department of MR/DD. This system will directly affect the Center's method used to reimburse specific special education costs within our programs. At this point, the Center is unable to determine what effect this legislation will have on future CAFS funding.

The second challenge is a change in the provider and funding of preschool aged special needs children. The current agreement in Shelby County is with the Shelby County MR/DD to provide services and raise funding through levy proceeds earmarked for special needs preschool. We have been notified by the MR/DD that they will not be able to continue the service nor funding in fiscal year 2006. By law, this will place service and funding obligations back with the Center, directly affecting the Center and districts served. There will be a need to hire additional staff to service the children and pay additional rental on the space that will be used.

Additionally, there is uncertainty regarding the Center's administrative office space. Under state law, the Shelby County Commissioners are no longer required to provide rent-free space to the Center. Depending on further negotiations, there may be a need to acquire new space or to pay additional rent for our current space.

The next challenge facing the Center is the decline in enrollment in Shelby County over the past few years and the projected decline in the future. The Center receives funding based on the ADM of Shelby County school districts, so the continued decline will directly impact state funding.

The last challenge facing the Center is the need to provide more services to Shelby County school districts with declining state support. Shelby County ESC constantly strives to provide more services in the most cost efficient manner.

The Center's systems of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the financial challenges of the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cathy Doseck, Treasurer, Shelby County Educational Service Center, 129 E. Court St., Annex Building, Sidney, Ohio 45365.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$1,088,874
Receivables:	
Accounts	200
Intergovernmental	75,821
Prepayments	4,284
Materials and supplies inventory	2,687
Capital assets:	
Depreciable capital assets, net	157,849
Capital assets, net	157,849
 Total assets	 1,329,715
 Liabilities:	
Accounts payable	13,355
Accrued wages and benefits	242,427
Pension obligation payable	54,139
Intergovernmental	23,651
Long-term liabilities:	
Due within one year	40,543
Due within more than one year	64,187
	64,187
 Total liabilities	 438,302
 Net Assets:	
Invested in capital assets, net of related debt	104,740
Unrestricted	786,673
	786,673
 Total net assets	 \$891,413

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
					<u>Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$319,462	\$873	\$363,210		\$44,621
Special	599,133	164,232	358,609		(76,292)
Support services:					
Pupil	744,570	632,460	38,726		(73,384)
Instructional staff	718,135	409,162	246,890		(62,083)
Board of education	30,005				(30,005)
Administration	268,735	215,093	52,230		(1,412)
Fiscal	94,037				(94,037)
Business	14,612				(14,612)
Operations and maintenance	9,568		3,544		(6,024)
Pupil transportation	2,039		1,770		(269)
Central	160,090		3,000	11,563	(145,527)
Interest and fiscal charges	2,653				(2,653)
Total governmental activities	<u><u>\$2,963,039</u></u>	<u><u>\$1,421,820</u></u>	<u><u>\$1,067,979</u></u>	<u><u>\$11,563</u></u>	<u><u>(\$461,677)</u></u>

General Revenues:

Grants and entitlements not restricted to specific programs	504,956
Investment earnings	7,815
Miscellaneous	1,843
Total general revenues	<u>514,614</u>
 Change in net assets	 52,937
 Net assets at	 <u>838,476</u>
 Net assets at	 <u><u>\$891,413</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General</u>	<u>Alternative School</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$816,056	\$236,659	\$21,224	\$14,935	\$1,088,874
Receivables:					
Accounts				200	200
Interfund loans	8,900				8,900
Intergovernmental	66,471			9,350	75,821
Prepayments	4,284				4,284
Materials and supplies inventory	2,669	18			2,687
Total assets	<u>898,380</u>	<u>236,677</u>	<u>21,224</u>	<u>24,485</u>	<u>1,180,766</u>
Liabilities:					
Accounts payable	8,989	303		4,063	13,355
Accrued wages and benefits	128,029	41,830	69,565	3,002	242,426
Pension obligation payable	17,482	5,375	8,657	388	31,902
Intergovernmental	19,358	1,302	2,630	362	23,652
Interfund loans payable				8,900	8,900
Total liabilities	<u>173,858</u>	<u>48,810</u>	<u>80,852</u>	<u>16,715</u>	<u>320,235</u>
Fund Balances:					
Reserved for encumbrances	9,898	1,537		4,271	15,706
Reserved for materials and supplies inventory	2,669	18			2,687
Reserved for prepayments	4,284				4,284
Unreserved, undesignated, reported in:					
General fund	707,671				707,671
Special revenue funds		186,312	(59,628)	3,499	130,183
Total fund balances	<u>724,522</u>	<u>187,867</u>	<u>(59,628)</u>	<u>7,770</u>	<u>860,531</u>
Total liabilities and fund balances	<u>\$898,380</u>	<u>\$236,677</u>	<u>\$21,224</u>	<u>\$24,485</u>	<u>\$1,180,766</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$860,531
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		157,849
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	\$51,621	
Pension obligation payable	22,237	
Capital lease obligation	<u>53,109</u>	
Total		<u>(126,967)</u>
Net assets of governmental activities		<u><u>\$891,413</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Alternative School</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Contract services	\$1,433,544				\$1,433,544
Earnings on investments	7,815				7,815
Extracurricular				\$2,413	2,413
Other	1,843			7,588	9,431
Intergovernmental - Intermediate	2,877	\$354,060		72,699	429,636
Intergovernmental - State	368,815			78,963	447,778
Intergovernmental - Federal	133,264		\$560,326	13,494	707,084
Total revenue	<u>1,948,158</u>	<u>354,060</u>	<u>560,326</u>	<u>175,157</u>	<u>3,037,701</u>
Expenditures:					
Current:					
Instruction:					
Regular		253,918		61,296	315,214
Special	200,846		390,766		591,612
Support services:					
Pupil	701,053		4,949	34,337	740,339
Instructional staff	444,051	33,973	186,453	44,040	708,517
Board of education	30,005				30,005
Administration	238,412	4,289	30,093	23,968	296,762
Fiscal	91,901				91,901
Business	3,623				3,623
Operations and maintenance	6,177	2,236			8,413
Pupil transportation	600	1,439			2,039
Central	142,006			14,563	156,569
Capital outlay	53,119				53,119
Debt service:					
Principal retirement	7,011				7,011
Interest and fiscal charges	2,653				2,653
Total expenditures	<u>1,921,457</u>	<u>295,855</u>	<u>612,261</u>	<u>178,204</u>	<u>3,007,777</u>
Excess of revenues under expenditures	<u>26,701</u>	<u>58,205</u>	<u>(51,935)</u>	<u>(3,047)</u>	<u>29,924</u>
Other financing sources:					
Proceeds from capital lease transaction	53,119				53,119
Total other financing sources	<u>53,119</u>				<u>53,119</u>
Net change in fund balances	79,820	58,205	(51,935)	(3,047)	83,043
Fund balances at beginning of year (restated)	644,702	129,662	(7,693)	10,817	777,488
Fund balances at end of year	<u><u>\$724,522</u></u>	<u><u>\$187,867</u></u>	<u><u>(\$59,628)</u></u>	<u><u>\$7,770</u></u>	<u><u>\$860,531</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds \$83,043

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$58,336) exceed depreciation expense (\$22,904) in the current period. 35,432

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) for the current period. 23,322

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (21,725)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 7,011

Proceeds of capital leases are recorded as revenue in the funds, however in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (53,119)

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (21,027)

Change in net assets of governmental activities \$52,937

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Contract services	\$1,367,050	\$1,430,250	\$1,416,676	(\$13,574)
Earnings on investments	14,000	14,000	7,815	(6,185)
Other	7,500	7,500	918	(6,582)
Intergovernmental - Intermediate	2,000	2,250	1,661	(589)
Intergovernmental - State	361,700	361,700	368,815	7,115
Intergovernmental - Federal	85,000	85,000	110,341	25,341
Total revenue	<u>1,837,250</u>	<u>1,900,700</u>	<u>1,906,226</u>	<u>5,526</u>
Expenditures:				
Current:				
Instruction:				
Special	300,000	300,000	179,567	120,433
Support services:				
Pupil	787,000	787,000	716,513	70,487
Instructional staff	592,000	537,200	456,937	80,263
Board of education	36,000	36,000	20,521	15,479
Administration	352,000	352,000	241,079	110,921
Fiscal	132,000	132,000	91,807	40,193
Business	47,000	47,000	12,142	34,858
Operations and maintenance	29,000	29,000	5,646	23,354
Pupil transportation	611	611	600	11
Central	200,000	203,000	143,850	59,150
Extracurricular activities	1,000	1,000		1,000
Total expenditures	<u>2,476,611</u>	<u>2,424,811</u>	<u>1,868,662</u>	<u>556,149</u>
Excess of revenues over (under) expenditures	<u>(639,361)</u>	<u>(524,111)</u>	<u>37,564</u>	<u>561,675</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,000	3,000	718	(2,282)
Advances in	50,000	50,000		(50,000)
Advances (out)	(50,000)	(50,000)	(8,900)	41,100
Total other financing sources (uses)	<u>3,000</u>	<u>3,000</u>	<u>(8,182)</u>	<u>(11,182)</u>
Net change in fund balance	(636,361)	(521,111)	29,382	550,493
Fund balance at beginning of year	755,270	755,270	755,270	
Prior year encumbrances appropriated	19,981	19,981	19,981	
Fund balance at end of year	<u><u>\$138,890</u></u>	<u><u>\$254,140</u></u>	<u><u>\$804,633</u></u>	<u><u>\$550,493</u></u>

ompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
TITLE VI-B
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$560,326	\$560,326	\$560,326	
Total revenue	<u>560,326</u>	<u>560,326</u>	<u>560,326</u>	
Expenditures:				
Current:				
Instruction:				
Special	398,059	398,059	376,835	\$21,224
Support services:				
Instructional staff	215,707	215,707	215,707	
Administration	30,000	30,000	30,000	
Total expenditures	<u>643,766</u>	<u>643,766</u>	<u>622,542</u>	<u>21,224</u>
Net change in fund balance	(83,440)	(83,440)	(62,216)	21,224
Fund balance at beginning of year	83,440	83,440	83,440	
Fund balance at end of year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$21,224</u></u>	<u><u>\$21,224</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALTERNATIVE SCHOOL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Intermediate	\$395,050	\$401,250	\$354,060	(\$47,190)
Total revenue	<u>395,050</u>	<u>401,250</u>	<u>354,060</u>	<u>(47,190)</u>
Expenditures:				
Current:				
Instruction:				
Regular	392,223	411,245	245,969	165,276
Support services:				
Instructional staff	61,588	64,575	34,208	30,367
Administration	5,093	5,340	4,374	966
Operations and maintenance	2,699	2,830	2,121	709
Pupil transportation	4,397	4,610	1,441	3,169
Total expenditures	<u>466,000</u>	<u>488,600</u>	<u>288,113</u>	<u>200,487</u>
Net change in fund balance	(70,950)	(87,350)	65,947	153,297
Fund balance at beginning of year	165,172	165,172	165,172	
Prior year encumbrances appropriated	4,003	4,003	4,003	
Fund balance at end of year	<u><u>\$98,225</u></u>	<u><u>\$81,825</u></u>	<u><u>\$235,122</u></u>	<u><u>\$153,297</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Private-Purpose Trust	Investment Trust
	Scholarship	
Assets:		
Equity in pooled cash and cash equivalents	\$9,279	\$721,121
Investments	170,490	170,490
Receivables:		
Accrued interest	3	
Intergovernmental	5,627	
	185,399	891,611
Total assets	185,399	891,611
Net Assets:		
Net assets available to pool participants		891,611
Held in trust for scholarships	185,399	
	185,399	891,611
Total net assets	\$185,399	\$891,611

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Private-Purpose Trust	Investment Trust
	Scholarship	Trust
Additions:		
Interest	\$4,346	\$10,216
Gifts and contributions	1,965	
Capital transactions		16,679
Increase in fair market value	26,297	26,616
Total additions	32,608	53,511
Deductions:		
Scholarships awarded	5,325	
Distributions to participants		10,216
Change in net assets	27,283	43,295
Net assets at beginning of year	158,116	848,316
Net assets at end of year	\$185,399	\$891,611

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Shelby County Educational Service Center (the "Center") is a political subdivision of the State of Ohio. It is the successor to the former Shelby County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Shelby County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Shelby County Educational Service Center".

The Center is located at 129 East Court Street, Sidney, in offices provided by the Shelby County Commissioners, as provided by Ohio Revised Code 3319.19.

The Board consists of five members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 43 non-certificated and 34 certificated employees to provide services to approximately 4,860 students in seven local districts throughout the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The Center's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*". The reporting entity is comprised of the primary government, component units and other organization that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, food service, preschool and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organizations' resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the Center:

1. Jointly Governed Organizations

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 29 member school districts. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a board of directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest.

In the case of WOCO, the Center serves as fiscal agent and custodian but is not accountable; therefore the operations of WOCO have been excluded from the Center's financial statements but the funds held on behalf of WOCO by the Center is included as an investment trust fund.

Western Central Ohio Special Education Regional Resource Center (SERRC)

The SERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for 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 of 52 members made up of the superintendents of the 50 participating districts and a non-public school, and a representative from Wright State University, whose terms rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43325-2385.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

The SOEPC is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shelby County Schools Consortium

The Shelby County Schools Consortium is a group purchasing pool among seven local school districts and the Shelby County Educational Service Center. This group purchasing pool formed a voluntary employee benefit association to provide sick, dental, and life benefits to participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to Anthem Blue Cross/Blue Shield for health and dental coverage and to Medical Life for life coverage. The Plan is governed by an administrative committee consisting of the superintendent from each participating district.

2. Public Entity Risk Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Center's major governmental funds:

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

Title VI-B - The Title VI-B is used to account for Federal monies which assist states in the identification of handicapped children, and provision of full educational opportunities to handicapped children at the preschool, elementary, and secondary levels.

Alternative School - The Alternative School fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other governmental funds of the Center are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has a private-purpose trust which accounts for scholarship programs for students. The investment trust fund is used to account for monies held on behalf of Western Ohio Computer Organization (WOCO) for which the District is fiscal agent and to account for a stock bequest benefiting Sidney City School District.

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

2. Fund Financial Statements

Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The investment trust fund and the private-purpose trust fund are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

1. 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.

Nonexchange transactions, in which the 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 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 nonexchange transactions must also be available before it can be recognized.

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

2. Expenses/Expenditures

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

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

1. Appropriations:

The annual appropriation resolution is enacted by the Governing Board of the Center at the fund, 2-digit function level of expenditures for the general fund and at the fund level for all other funds. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

Budgetary controls implemented by the Center 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 the levels of control established by the Board.

Any revisions that alter the total of any fund appropriation, or alter total function, 2-digit function appropriations within the general fund, must be approved by the Governing Board of the Center. During the year, five supplemental appropriation measures were enacted.

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.

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds 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 basic financial statements.

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, common stock (see below), and a money market mutual fund. Investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock for its private-purpose trust fund. A portion of this stock is due to the Sidney City School District and is reported as an investment trust fund (see Note 5). No public funds were used to acquire the stock.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2004 amounted to \$7,815, which includes \$4,431 assigned from other Center funds.

For presentation on the basic financial statements, 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. An analysis of the Treasurer's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. Inventory consists of expendable supplies held for consumption.

H. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center follows the capitalization policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than one year. Improvements are capitalized; 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. The Center does not possess infrastructure.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Furniture and equipment	5 - 25 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Compensated absences of the Center consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16, "*Accounting for Compensated Absences*", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future.

For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees who are at least 50 years old with at least 10 years of service and any age with at least 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, 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 noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a 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, materials and supplies inventory, and prepayments.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. There was no interfund activity in fiscal year 2004.

P. Estimates

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the Center has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the Center's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the Center switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the Center's governmental fund balances as previously reported:

	General	Alternative School	Title VI-B	Nonmajor	Total
Fund balance June 30, 2003	\$ 625,174	\$ 129,662	\$ (7,693)	\$ 10,817	\$ 757,960
Implementation of GASB Interpretation No. 6	<u>19,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,528</u>
Restated fund balance, June 30, 2003	<u>\$ 644,702</u>	<u>\$ 129,662</u>	<u>\$ (7,693)</u>	<u>\$ 10,817</u>	<u>\$ 777,488</u>

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$ 777,488
GASB 34 adjustments:	
Long-term (deferred) assets	21,725
Capital assets	124,596
Pension obligation	(8,110)
Long-term liabilities	(77,223)
Governmental activities net assets, June 30, 2003	\$ 838,476

B. Deficit Fund Balances

Fund balances at June 30, 2004, included the following individual fund deficits:

Nonmajor Governmental Funds	Deficit
Entry Year Program	\$ 55
After School Alternative Grant	76
Preschool	37
Title VI-B	59,628

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Governing Board 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.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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.

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 or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

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.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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.

Cash on hand: At fiscal year-end, the Center had \$75 in undeposited cash on hand, which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end, the carrying amount of the Center's deposits was \$1,835,199 and the bank balance was \$2,096,519. These balances include \$16,000 in nonnegotiable certificates of deposit and \$1,275,899 in a money market account. Of the bank balance: \$226,353 was covered by federal depository insurance or by collateral held by the Center in the Center's name; and \$1,870,166 was uninsured and uncollateralized as defined by GASB because it was secured by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

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

Investments: The Center's investments are categorized below to give an indication of the level of risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the Center. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty'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, but not in the Center's name.

	Category 1	Reported Amount	Fair Value
Stock	\$ 324,980	\$ 324,980	\$ 324,980

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,819,274	\$340,980
Investments of the cash management pool:		
Certificates of deposit	16,000	(16,000)
Cash on hand	(75)	-
GASB Statement No. 3	\$1,835,199	\$324,980

5. INVESTMENT POOL

The Center serves as fiscal agent for WOCO and maintains stock that was bequeathed to the Center and to Sidney City School District. These activities make up the external portion of the investment pool. The Center pools the monies of these activities with the Center's cash for investment purposes. The Center cannot allocate its investments between the internal and external investment pools.

The investment pool is not registered with the Security and Exchange Commission as an investment company. The fair value is determined annually. The pool does not issue shares. WOCO is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. WOCO's share of the investment portfolio is presented in a separate investment trust fund.

The Center maintains stock that was bequeathed to the Center and to the Sidney City School District. Each entity is entitled to 50 percent of the stock value. The portion of the stock that is due to the Sidney City School District is reported in a separate investment trust fund.

Condensed financial information for the investment pool follows:

**Statement of Net Assets
June 30, 2004**

Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,819,274
Investments	340,980
Accrued Interest Receivable	3
Total Assets	<u>2,160,257</u>
 Net Assets Held in Trust for Pool Participants	
Internal Portion	1,268,646
External Portion	891,611
Total Net Assets Held in Trust for Pool Participants	<u>2,160,257</u>

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. INVESTMENT POOL (Continued)

**Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2004**

Additions	
Interest	\$ 22,377
Capital Transactions	<u>110,300</u>
Total Additions	132,677
Deductions	
Distributions to Participants	<u>22,376</u>
Change in Net Assets	110,301
Net Assets, Beginning of Year	<u>2,049,956</u>
Net Assets, End of Year	<u><u>\$ 2,160,257</u></u>

Deposits and investments of the investment pool mirror those of the Center. There are no differences between the deposits and investments of the Center and those of the investment pool. See Note 4 for the investment pools classifications of 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".

6. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u><u>\$8,900</u></u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

7. RECEIVABLES

Receivables at June 30, 2004 consisted of accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Accounts	\$200
Intergovernmental	<u>75,821</u>
Total	<u><u>\$76,021</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to the reporting of accumulated depreciation in accordance with GASB Statement No. 34.

	Balance June 30, 2003	Adjustments	Restated Balance July 1, 2003
Capital assets, being depreciated:			
Furniture and equipment	\$174,971		\$174,971
Total capital assets, being depreciated	174,971		174,971
Less: accumulated depreciation:			
Governmental activities capital assets, net	\$174,971	(\$50,375)	(50,375)
	\$174,971	(\$50,375)	\$124,596

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets, being depreciated:				
Furniture and equipment	\$ 174,971	\$ 58,336	\$ (2,179)	\$ 231,128
Total capital assets, being depreciated	174,971	58,336	(2,179)	231,128
Less: accumulated depreciation				
Furniture and equipment	(50,375)	(22,904)	-	(73,279)
Total accumulated depreciation	(50,375)	(22,904)	-	(73,279)
Governmental activities capital assets, net	\$ 124,596	\$ 35,432	\$ (2,179)	\$ 157,849

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,448
Special	377
Support Services:	
Pupil	1,202
Instructional staff	5,258
Board of Education	5,312
Administration	2,055
Fiscal	1,329
Central	5,923
Total depreciation expense	\$22,904

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, the Center entered into a capitalized lease for the acquisition of a copier. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reflected as function expenditures on the budgetary statements. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2004 fiscal year totaled \$7,011, paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

Fiscal Year Ending	Payments
2005	\$ 14,194
2006	13,100
2007	13,100
2008	13,100
2009	<u>10,917</u>
Total minimum lease payment	64,411
Less: amount representing interest	<u>(11,302)</u>
Present value of minimum lease payments	<u><u>\$ 53,109</u></u>

10. LONG-TERM OBLIGATIONS

The balance of the Center's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$19,528 from \$25,193 to \$44,721 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$8,110 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$11,418 from \$65,805 to \$77,223. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding July 1, 2003	Additions	Reductions	Balance Outstanding June 30, 2004	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$44,721	\$32,450	(\$25,550)	\$51,621	\$30,560
Capital lease obligation	<u>32,502</u>	<u>53,119</u>	<u>(32,512)</u>	<u>53,109</u>	<u>9,983</u>
Total long-term obligations, governmental activities	<u><u>\$77,223</u></u>	<u><u>\$85,569</u></u>	<u><u>(\$58,062)</u></u>	<u><u>\$104,730</u></u>	<u><u>\$40,543</u></u>

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. RISK MANAGEMENT

A. Comprehensive and Employee Health Insurance

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2004, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion 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 adequacy of the contribution rates is determined annually. The Center's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$104,214, \$87,709, and \$49,186, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

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 administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

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

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

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions.

The Center's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$167,555, \$158,014, and \$111,557, respectively; 100% has been contributed for fiscal year 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$107 made by the District and \$169 made by the plan members.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The Center's liability is 6.2% of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the Center, this amount equaled \$12,889 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Center, the amount to fund health care benefits equaled \$56,292 during the 2004 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the School Employees Retirement System's net assets available for payment of health care benefits was \$300.8 million and SERS had approximately 62,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund, alternative school fund, and Title VI-B fund 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 the GAAP basis are that:

- a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund, alternative school fund, and Title VI-B fund is as follows:

	Net Change in Fund Balance		
	<u>General Fund</u>	<u>Alternative School</u>	<u>Title VI-B</u>
Budget basis	\$29,382	\$65,947	(\$62,216)
Net adjustment for revenue accruals	41,932		
Net adjustment for expenditure accruals	(64,218)	(9,279)	10,281
Net adjustment for other sources/uses	61,301		
Adjustment for encumbrances	11,423	1,537	
GAAP basis	<u>\$79,820</u>	<u>\$58,205</u>	<u>(\$51,935)</u>

15. PRIMARY REVENUE SOURCES

There are two primary sources of operating revenue for the Center. The first primary source for Center operating dollars comes from payments made directly to the Center by districts that have contracted with the Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

State Foundation Distributions - Amounts Paid by the State. This section has four parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

15. PRIMARY REVENUE SOURCES (Continued)

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM as defined in Section 3317.11, R.C.) of the local districts within the limits of the Center's territory times \$37.00. The Center also receives a per pupil amount for the Sidney City School District. The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The final part of this section is the guarantee amount paid to Centers serving less than 10,000 students or to a Center that otherwise would have experienced a reduction in State funding because a local district had changed status to a city district. The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

State Foundation Distributions - Amounts Paid by the Locals. This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts all reported as charges for services.

State Foundation Distributions - Amounts Paid under Contract by Locals. This section has only one part. It represents amounts due to the Educational Service Center for services provided under contract with participating districts which the Educational Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent charges for services.

16. CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

16. CONTINGENCIES (Continued)

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.

EDUCATIONAL SERVICE CENTER
SHELBY COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	049742-6B-SF-03P	84.027		\$83,440
	049742-6B-SF-04P	84.027	\$560,326	539,102
Total for Special Education Grants to States			560,326	622,542
Special Education - Preschool Grant	049742-PG-S1-2004P	84.173	13,494	13,494
Total Special Education Cluster			573,820	636,036
Total Department of Education			573,820	636,036
 U.S. Department of Health and Human Services				
<i>Passed Through Ohio Department of Mental Health and Developmental Disabilities</i>				
Medical Assistance Program		93.778	110,341	110,341
Total Department of Health and Human Services			110,341	110,341
Total Federal Assistance			\$684,161	\$746,377

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

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards 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— COMMINGLING OF FEDERAL MONIES

Federal program monies were commingled with state and/or local monies for the Medical Assistance program. It is assumed that federal monies were expended first.

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**Auditor of State
Betty Montgomery**

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Educational Service Center, Shelby County, (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 11, 2005, wherein we noted the Center implemented a new financial reporting model, as required by Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Center's management in a separate letter dated February 11, 2005.

Educational Service Center
Shelby County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, the Governing 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.

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 11, 2005



**Auditor of State
Betty Montgomery**

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

Educational Service Center
Shelby County
129 East Court Street, 4th Floor
Sidney, Ohio 45365

To the Governing Board:

Compliance

We have audited the compliance of the Educational Service Center, Shelby County, (the 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, 2004. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the 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 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 Center's compliance with those requirements.

In our opinion, the 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, 2004.

Internal Control Over Compliance

The management of the 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 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.

**Internal Control Over Compliance
(Continued)**

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

This report is intended for the information and use of the audit committee, management, the Governing 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.

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 11, 2005

**EDUCATIONAL SERVICE CENTER
SHELBY COUNTY
JUNE 30, 2004**

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

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 material non-compliance 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 Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA #'s 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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SHELBY EDUCATIONAL SERVICE CENTER

SHELBY 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 10, 2005