

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY**

SINGLE AUDIT

For the Year Ended June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Franklin County Educational Service Center
1717 Alum Creek Drive
Columbus, Ohio 43207-1754

We have reviewed the Independent Auditor's Report of the Franklin County Educational Service Center, prepared by Jones, Cochenour & Co., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 3, 2005

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FRANKLIN COUNTY EDUCATION SERVICE CENTER
FRANKLIN COUNTY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of the Franklin County Educational Service Center, Franklin County, Ohio, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion 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, the major fund, and the aggregate remaining fund information of the Franklin County Educational Service Center, Franklin County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, the respective budgetary comparisons for the General and Title VI-B and the cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2004 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 an opinion on the financial statements that collectively comprise the Service 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.

Jones, Cochenour & Co.
December 9, 2004

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

The discussion and analysis of the Franklin 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 decreased \$877,341 which represents a 9.95% decrease from 2003.
 - General revenues accounted for \$3,916,354 in revenue or 14.82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$22,501,898 or 85.18% of total revenues of \$26,418,252.
 - The Center had \$27,295,593 in expenses related to governmental activities; \$22,501,898 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$3,916,354 were not adequate to provide for these programs.
 - The Center's major governmental funds include the general fund, Title VI-B and Permanent Improvement fund. The general fund had \$19,868,365 in revenues and \$20,386,351 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance decreased \$517,986 from \$5,198,922 to \$4,680,936.
 - Another of the Center's major governmental funds is the Title VI-B fund. The Title VI-B fund had \$2,391,861 in revenues and \$3,191,260 in expenditures. During fiscal 2004, its fund balance decreased \$799,399 from \$800,836 to \$1,437.
 - The Center's other major fund is the Permanent Improvement fund. During fiscal 2004, the Permanent Improvement fund maintained a fund balance of \$2,000,000.

Using these Basic Financial Statements (BFS)

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. The Center reports the general fund, Title VI-B fund, and Permanent Improvement fund as major funds.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO

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

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 takes 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 increased or decreased services desired by school districts, state budget cuts, 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 11 - 12 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 8. 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* that 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 11 - 18 of this report.

Proprietary Funds

The District maintains only one type of proprietary fund. The internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District has two internal service funds that account for a self-insurance program which provides health and dental benefits to employees and the Leadership Academy program. The basic proprietary fund financial statements can be found on pages 19 - 21 of this report.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

Reporting the Center's Fiduciary Responsibilities

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 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 - 42 of this report.

The Center as a Whole

The Statement of Net Assets provides the perspective of the Center as a whole.

Net assets at June 30, 2003, have been restated to properly record grants receivable and for fund reclassifications (see Note 3.A. to the basic financial statements for detail). The table below provides a summary of the Center's net assets for 2004 and 2003.

| | Net Assets | |
|--|---|---|
| | Governmental Activities <u>2004</u> | (Restated) Governmental Activities <u>2003</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 10,829,136 | \$ 11,702,035 |
| Capital assets | <u>811,221</u> | <u>755,580</u> |
| Total assets | <u>11,640,357</u> | <u>12,457,615</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 2,930,430 | 2,870,407 |
| Long-term liabilities | <u>766,789</u> | <u>766,729</u> |
| Total liabilities | <u>3,697,219</u> | <u>3,637,136</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 811,221 | 755,580 |
| Restricted | 3,452,715 | 2,316,418 |
| Unrestricted | <u>3,679,202</u> | <u>5,748,481</u> |
| Total net assets | <u>\$ 7,943,138</u> | <u>\$ 8,820,479</u> |

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 \$7,943,138. Of this total, \$3,679,202 is unrestricted in use.

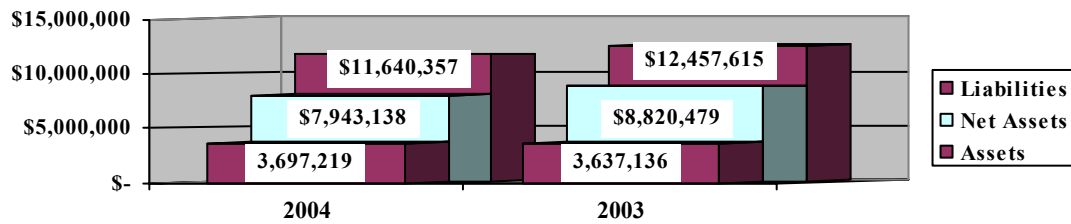
**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

At year-end, capital assets represented 6.97% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$811,221. These capital assets are used to provide the Center's services and are not available for future spending.

A portion of the Center's net assets, \$3,452,715, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,679,202 may be used to meet the Center's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2004 and 2003. Operating grants and contributions for the year ended June 30, 2003, have been increased by \$1,691,721 to properly record grants receivable and to reflect the fund reclassifications (see Note 3.A. to the basic financial statements for detail). Also, \$1,744,654 in revenue received through state foundation in fiscal 2003 for providing services to other school districts is reported in charges for services and sales program revenue rather than grants and entitlements general revenues where it was reported in the prior year.

Change in Net Assets

| | Governmental Activities <u>2004</u> | (Restated) Governmental Activities <u>2003</u> |
|------------------------------------|---|---|
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 15,967,428 | \$ 14,359,939 |
| Operating grants and contributions | 6,534,470 | 7,029,501 |
| General revenues: | | |
| Grants and entitlements | 3,817,246 | 3,937,170 |
| Investment earnings | 80,502 | 105,696 |
| Other | <u>18,606</u> | <u>37,950</u> |
| Total revenues | <u>\$ 26,418,252</u> | <u>\$ 25,470,256</u> |

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

| | Change in Net Assets | |
|--|------------------------------------|--|
| | Governmental Activities 2004 | (Restated) Governmental Activities 2003 |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ - | \$ 34,234 |
| Special | 8,621,619 | 7,740,264 |
| Vocational | 100 | 537,369 |
| Adult education | 8,159 | 1,000 |
| Support services: | | |
| Pupil | 825,956 | 793,365 |
| Instructional staff | 10,175,126 | 9,454,998 |
| Board of education | 94,987 | 76,113 |
| Administration | 6,001,870 | 5,262,054 |
| Fiscal | 548,454 | 526,107 |
| Business | 197,213 | 227,665 |
| Operations and maintenance | 485,192 | 557,414 |
| Pupil transportation | 25,098 | 29,491 |
| Central | 136,073 | 8,107 |
| Operations of non-instructional services | 175,576 | 151,290 |
| Extracurricular activities | 170 | - |
| Total expenses | <u>27,295,593</u> | <u>25,399,471</u> |
| Change in net assets | <u>\$ (877,341)</u> | <u>\$ 70,785</u> |

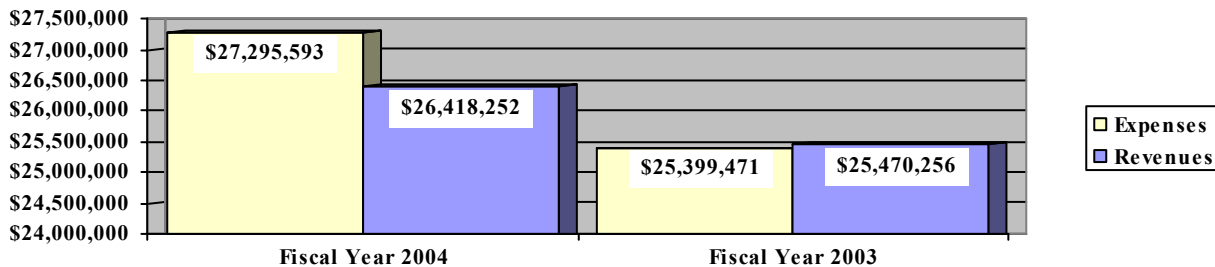
Governmental Activities

Net assets of the Center's governmental activities decreased \$877,341. Total governmental expenses of \$27,295,593 were not completely offset by program revenues of \$22,501,898 and general revenues of \$3,916,354. Program revenues supported 82.44% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 60.44% of total governmental revenue.

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

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, and other general revenues not restricted to a specific program. The 2003 Net Cost of Services has been restated to properly record the effect of the restatement for grants receivable at June 30, 2003 and to present the effect of \$1,744,654 in customer services revenues reclassified from general revenues to program revenue.

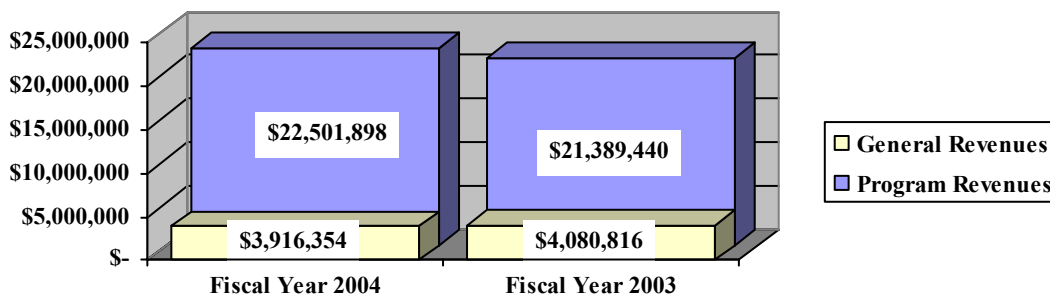
Governmental Activities

| | Total Cost of Services <u>2004</u> | Net Cost of Services <u>2004</u> | Total Cost of Services <u>2003</u> | (Restated) Net Cost of Services <u>2003</u> |
|--|--|--|--|--|
| Program expenses | | | | |
| Instruction: | | | | |
| Regular | \$ - | \$ - | \$ 34,234 | \$ 34,234 |
| Special | 8,621,619 | 1,139,432 | 7,740,264 | 1,945,308 |
| Vocational | 100 | (21) | 537,369 | 39,145 |
| Adult education | 8,159 | (1,585) | 1,000 | 68 |
| Support services: | | | | |
| Pupil | 825,956 | (290,749) | 793,365 | (197,830) |
| Instructional staff | 10,175,126 | 1,632,033 | 9,454,998 | 487,423 |
| Board of education | 94,987 | 94,987 | 76,113 | 76,113 |
| Administration | 6,001,870 | 1,367,223 | 5,262,054 | 838,506 |
| Fiscal | 548,454 | 403,389 | 526,107 | 380,226 |
| Business | 197,213 | 59,167 | 227,665 | 70,535 |
| Operations and maintenance | 485,192 | 53,094 | 557,414 | 288,410 |
| Pupil transportation | 25,098 | 25,098 | 29,491 | 29,491 |
| Central | 136,073 | 136,073 | 8,107 | 8,107 |
| Operations of non-instructional services | 175,576 | 175,576 | 151,290 | 10,295 |
| Extracurricular activities | <u>170</u> | <u>(22)</u> | <u>-</u> | <u>-</u> |
| Total expenses | <u>\$ 27,295,593</u> | <u>\$ 4,793,695</u> | <u>\$ 25,399,471</u> | <u>\$ 4,010,031</u> |

For all governmental activities, program revenue support is 82.44% at June 30, 2004 and 84.21% at June 30, 2003. 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



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

The Center's Funds

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$7,026,120, which is lower than last year's total of \$8,857,976 as restated (see Note 3.A. to the basic financial statements for detail). 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 | (Restated) Fund Balance June 30, 2003 | <u>(Decrease)</u> |
|-----------------------|-------------------------------|---|-----------------------|
| General | \$ 4,680,936 | \$ 5,198,922 | \$ (517,986) |
| Title VI-B | 1,437 | 800,836 | (799,399) |
| Permanent Improvement | 2,000,000 | 2,000,000 | - |
| Other Governmental | <u>343,747</u> | <u>858,218</u> | <u>(514,471)</u> |
| Total | <u>\$ 7,026,120</u> | <u>\$ 8,857,976</u> | <u>\$ (1,831,856)</u> |

General Fund

The Center's general fund balance decreased in fiscal 2004 by \$517,986 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to an increase in costs associated with contract services provided to Districts. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

| | 2004 <u>Amount</u> | (Restated) 2003 <u>Amount</u> | <u>Percentage Change</u> |
|----------------------------|-----------------------|-------------------------------------|------------------------------|
| <u>Revenues</u> | | | |
| Tuition | \$ 7,072,754 | \$ 7,064,630 | 0.11 % |
| Customer services | 8,879,257 | 7,280,836 | 21.95 % |
| Earnings on investments | 80,502 | 105,696 | (23.84) % |
| Intergovernmental | 3,817,246 | 3,937,170 | (3.05) % |
| Other revenues | <u>18,606</u> | <u>34,700</u> | (46.38) % |
| Total | <u>\$ 19,868,365</u> | <u>\$ 18,423,032</u> | 7.85 % |
| <u>Expenditures</u> | | | |
| Instruction | \$ 8,372,065 | \$ 7,672,898 | 9.11 % |
| Support services | <u>11,733,862</u> | <u>11,014,482</u> | 6.53 % |
| Total | <u>\$ 20,105,927</u> | <u>\$ 18,687,380</u> | 7.59 % |

Title VI-B Fund

During fiscal 2004, the Title VI-B fund balance decreased by \$799,399 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to a decrease of intergovernmental revenue received during the available period and increase in deferred revenue. Revenues totaled \$2,391,861 and expenditures totaled \$3,191,260 during fiscal 2004.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

Permanent Improvement Fund

The Permanent Improvement fund maintained a fund balance of \$2,000,000 during fiscal 2004. During fiscal 2003, the Center identified the need for certain improvements to the Center and transferred \$2,000,000 from the general fund. The improvements were not started as of June 30, 2004.

General Fund Budgeting Highlights

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

For the general fund, original and final budgeted revenues and other financing sources were \$19,802,633. Actual revenues and other financing sources for fiscal 2004 were \$21,077,582. This represents a \$1,274,949 increase from the final budgeted revenues and other financing sources.

General fund original budgeted expenditures and other financing uses of \$18,269,389 were increased to \$20,833,813 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$20,896,278, which was \$62,465 higher than the final budget appropriations.

Capital Assets

At the end of fiscal 2004, the Center had \$811,221 invested in furniture and equipment and vehicles. 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 | \$ 717,435 | \$ 669,735 |
| Vehicles | 93,786 | 85,845 |
| Total | \$ 811,221 | \$ 755,580 |

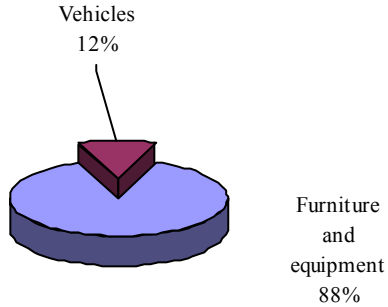
Total additions to capital assets for 2004 were \$222,327. A total of \$130,344 in depreciation expense was recognized for fiscal 2004.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

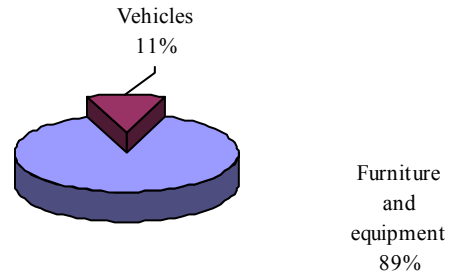
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graphs below present the Center's capital assets for fiscal 2004 and fiscal 2003.

**Capital Assets - Governmental Activities
2004**



**Capital Assets - Governmental Activities
2003**



See Note 7 to the basic financial statements for additional information on the Center's capital assets.

Current Financial Related Activities

The Center is in a stable financial position at the end of June 2004. The Governing Board has a Permanent Improvement fund to cover possible future office space needs or payment of office building rental, and future technology equipment needs. Legislative requirements for the development of Ohio Regional Educational Delivery Systems will have an impact on educational service centers in the future. At this time it is impossible to determine what effect this legislation will have on the Franklin County Educational Service Center.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Marjorie Fenton, Treasurer, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43207.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF NET ASSETS
June 30, 2004**

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. . . | \$ 8,183,370 |
| Receivables: | |
| Accounts | 2,806 |
| Intergovernmental | 2,623,356 |
| Prepayments | 19,604 |
| Capital assets: | |
| Depreciable capital assets, net | 811,221 |
| Capital assets, net. | 811,221 |
| Total assets. | 11,640,357 |
| Liabilities: | |
| Accounts payable. | 350,210 |
| Accrued wages and benefits | 1,661,286 |
| Intergovernmental payable | 495,503 |
| Claims payable | 423,431 |
| Long-term liabilities: | |
| Due within one year. | 376,184 |
| Due within more than one year | 390,605 |
| Total liabilities | 3,697,219 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 811,221 |
| Restricted for: | |
| Capital projects | 2,000,000 |
| Other purposes | 1,452,715 |
| Unrestricted. | 3,679,202 |
| Total net assets | \$ 7,943,138 |

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|---|---|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Special | \$ 8,621,619 | \$ 7,440,237 | \$ 41,950 | \$ (1,139,432) |
| Vocational | 100 | - | 121 | 21 |
| Adult education | 8,159 | - | 9,744 | 1,585 |
| Support services: | | | | |
| Pupil | 825,956 | 928,378 | 188,327 | 290,749 |
| Instructional staff | 10,175,126 | 7,150,191 | 1,392,902 | (1,632,033) |
| Board of education | 94,987 | - | - | (94,987) |
| Administration | 6,001,870 | 310,384 | 4,324,263 | (1,367,223) |
| Fiscal | 548,454 | - | 145,065 | (403,389) |
| Business | 197,213 | 138,046 | - | (59,167) |
| Operations and maintenance | 485,192 | - | 432,098 | (53,094) |
| Pupil transportation | 25,098 | - | - | (25,098) |
| Central | 136,073 | - | - | (136,073) |
| Operation of non-instructional services | 175,576 | - | - | (175,576) |
| Extracurricular activities | 170 | 192 | - | 22 |
| Total governmental activities | \$ 27,295,593 | \$ 15,967,428 | \$ 6,534,470 | (4,793,695) |
| General Revenues: | | | | |
| Grants and entitlements not restricted | | | | |
| to specific programs | | | | |
| | | | | 3,817,246 |
| Investment earnings | | | | |
| | | | | 80,502 |
| Miscellaneous | | | | |
| | | | | 18,606 |
| Total general revenues | | | | 3,916,354 |
| Change in net assets | | | | (877,341) |
| Net assets at beginning of year (restated). | | | | 8,820,479 |
| Net assets at end of year | | | | \$ 7,943,138 |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004**

| | <u>General</u> | <u>Title VI-B</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------------|--------------------------|----------------------------------|---|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$5,120,160 | \$ 87,393 | \$ 2,000,000 | \$ 566,068 | \$ 7,773,621 |
| Receivables: | | | | | |
| Accounts | 1,788 | 202 | - | 816 | 2,806 |
| Intergovernmental | 1,129,939 | 687,515 | - | 805,902 | 2,623,356 |
| Interfund loans | 483,664 | - | - | - | 483,664 |
| Prepayments. | <u>19,604</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>19,604</u> |
| Total assets | <u>\$ 6,755,155</u> | <u>\$ 775,110</u> | <u>\$ 2,000,000</u> | <u>\$ 1,372,786</u> | <u>\$ 10,903,051</u> |
| Liabilities: | | | | | |
| Accounts payable | \$ 133,775 | \$ 62,743 | \$ - | \$ 149,135 | \$ 345,653 |
| Accrued wages and benefits | 1,602,810 | 14,838 | - | 43,637 | 1,661,285 |
| Intergovernmental payable. | 322,409 | 8,577 | - | 9,065 | 340,051 |
| Interfund loan payable | - | - | - | 333,664 | 333,664 |
| Deferred revenue. | <u>15,225</u> | <u>687,515</u> | <u>-</u> | <u>493,538</u> | <u>1,196,278</u> |
| Total liabilities | <u>2,074,219</u> | <u>773,673</u> | <u>-</u> | <u>1,029,039</u> | <u>3,876,931</u> |
| Fund Balances: | | | | | |
| Reserved for encumbrances | 211,315 | 182,319 | - | 522,202 | 915,836 |
| Reserved for prepayments | 19,604 | - | - | - | 19,604 |
| Unreserved, undesignated, reported in: | | | | | |
| General fund | 4,450,016 | - | - | - | 4,450,016 |
| Special revenue funds. | - | (180,882) | - | (178,455) | (359,337) |
| Capital projects funds. | <u>-</u> | <u>-</u> | <u>2,000,000</u> | <u>-</u> | <u>2,000,000</u> |
| Total fund balances | <u>4,680,936</u> | <u>1,437</u> | <u>2,000,000</u> | <u>343,747</u> | <u>7,026,120</u> |
| Total liabilities and fund balances | <u>\$ 6,755,155</u> | <u>\$ 775,110</u> | <u>\$ 2,000,000</u> | <u>\$ 1,372,786</u> | <u>\$ 10,903,051</u> |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2004**

| | | |
|--|----------------|--------------------------------|
| Total governmental fund balances | | \$ 7,026,120 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 811,221 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Customer services | 944,602 | |
| Intergovernmental revenue | <u>251,676</u> | |
| Total | | 1,196,278 |
| Internal service funds are used by management to charge the costs of insurance and the Leadership Academy to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | | (168,239) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Compensated absences | 766,789 | |
| Pension obligation payable | <u>155,453</u> | |
| Total | | <u>(922,242)</u> |
| Net assets of governmental activities | | <u>\$ 7,943,138</u> |

See accompanying notes to the basic financial statements

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

| | <u>General</u> | <u>Title VI-B</u> | <u>Permanent Improvement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------------|-------------------------|----------------------------------|---|---|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Tuition. | \$ 7,072,754 | \$ - | \$ - | \$ - | \$ 7,072,754 |
| Customer services | 8,879,257 | - | - | - | 8,879,257 |
| Earnings on investments. | 80,502 | - | - | - | 80,502 |
| Extracurricular. | - | - | - | 192 | 192 |
| Other local revenues. | 18,606 | - | - | - | 18,606 |
| Intergovernmental - State. | 3,817,246 | - | - | 1,606,016 | 5,423,262 |
| Intergovernmental - Federal | - | 2,391,861 | - | 1,526,181 | 3,918,042 |
| Total revenue. | <u>19,868,365</u> | <u>2,391,861</u> | <u>-</u> | <u>3,132,389</u> | <u>25,392,615</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Special. | 8,372,065 | 9,572 | - | 29,159 | 8,410,796 |
| Adult education | - | - | - | 100 | 100 |
| Other | - | - | - | 8,159 | 8,159 |
| Support services: | | | | | |
| Pupil. | 640,299 | 38,864 | - | 151,023 | 830,186 |
| Instructional staff | 8,553,310 | 636,458 | - | 837,019 | 10,026,787 |
| Board of education | 94,987 | - | - | - | 94,987 |
| Administration. | 1,302,808 | 2,261,785 | - | 2,332,125 | 5,896,718 |
| Fiscal | 389,504 | 68,348 | - | 79,764 | 537,616 |
| Business | 194,972 | - | - | - | 194,972 |
| Operations and maintenance. | 275,324 | 176,233 | - | 31,615 | 483,172 |
| Pupil transportation | 33,039 | - | - | - | 33,039 |
| Central. | 249,619 | - | - | - | 249,619 |
| Operation of non-instructional services | - | - | - | 177,726 | 177,726 |
| Extracurricular activities. | - | - | - | 170 | 170 |
| Total expenditures | <u>20,105,927</u> | <u>3,191,260</u> | <u>-</u> | <u>3,646,860</u> | <u>26,944,047</u> |
| Excess of revenues under expenditures. | (237,562) | (799,399) | - | (514,471) | (1,551,432) |
| Other financing uses: | | | | | |
| Transfers out | (280,424) | - | - | - | (280,424) |
| Total other financing uses | <u>(280,424)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(280,424)</u> |
| Net change in fund balances | (517,986) | (799,399) | - | (514,471) | (1,831,856) |
| Fund balances at beginning of year | | | | | |
| (restated) | 5,198,922 | 800,836 | 2,000,000 | 858,218 | 8,857,976 |
| Fund balances at end of year | <u>\$ 4,680,936</u> | <u>\$ 1,437</u> | <u>\$ 2,000,000</u> | <u>\$ 343,747</u> | <u>\$ 7,026,120</u> |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
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 \$ (1,831,856)

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 exceeds depreciation expense in the current period. 91,983

Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (36,342)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,025,637

The internal service funds used by management to charge the costs of insurance and the Leadership Academy to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities. (42,838)

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. (83,925)

Change in net assets of governmental activities \$ (877,341)

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
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: | | | | |
| Tuition | \$ 7,533,043 | \$ 7,533,043 | \$ 7,298,160 | \$ (234,883) |
| Customer services | 7,804,321 | 7,804,321 | 9,183,339 | 1,379,018 |
| Earnings on investments. | 100,000 | 100,000 | 80,502 | (19,498) |
| Other local revenues. | 5,000 | 5,000 | 18,386 | 13,386 |
| Intergovernmental - State | 3,710,269 | 3,710,269 | 3,817,246 | 106,977 |
| Total revenue | <u>19,152,633</u> | <u>19,152,633</u> | <u>20,397,633</u> | <u>1,245,000</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special. | 7,590,662 | 8,132,613 | 8,120,679 | 11,934 |
| Support services: | | | | |
| Pupil. | 604,427 | 625,476 | 622,137 | 3,339 |
| Instructional staff | 7,843,032 | 8,611,253 | 8,565,843 | 45,410 |
| Board of education | 109,488 | 104,580 | 101,741 | 2,839 |
| Administration. | 1,049,786 | 1,274,914 | 1,272,619 | 2,295 |
| Fiscal | 380,741 | 388,720 | 386,342 | 2,378 |
| Business | 262,987 | 211,179 | 210,323 | 856 |
| Operations and maintenance. | 387,511 | 336,797 | 329,276 | 7,521 |
| Pupil transportation | 27,426 | 34,608 | 33,649 | 959 |
| Central. | 13,329 | 270,065 | 263,585 | 6,480 |
| Total expenditures | <u>18,269,389</u> | <u>19,990,205</u> | <u>19,906,194</u> | <u>84,011</u> |
| Excess of revenues over (under) expenditures. | <u>883,244</u> | <u>(837,572)</u> | <u>491,439</u> | <u>1,329,011</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's expenditures | 20,000 | 20,000 | 616 | (19,384) |
| Refund of prior year's (receipts). | - | (1,000) | - | 1,000 |
| Transfers (out) | - | (217,608) | (462,688) | (245,080) |
| Advances in. | 630,000 | 630,000 | 679,333 | 49,333 |
| Advances (out) | - | (625,000) | (527,396) | 97,604 |
| Total other financing sources (uses) | <u>650,000</u> | <u>(193,608)</u> | <u>(310,135)</u> | <u>(116,527)</u> |
| Net change in fund balance | 1,533,244 | (1,031,180) | 181,304 | 1,212,484 |
| Fund balance at beginning of year. | 4,529,726 | 4,529,726 | 4,529,726 | - |
| Prior year encumbrances appropriated . . | 230,946 | 230,946 | 230,946 | - |
| Fund balance at end of year | <u>\$ 6,293,916</u> | <u>\$ 3,729,492</u> | <u>\$ 4,941,976</u> | <u>\$ 1,212,484</u> |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
TITLE VI-B
For the Fiscal Year Ended June 30, 2004**

| | <u>Budgeted Amounts</u> | | | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Intergovernmental - State | \$ 3,077,454 | \$ 3,077,454 | \$ 3,506,656 | \$ 429,202 |
| Total revenue | <u>3,077,454</u> | <u>3,077,454</u> | <u>3,506,656</u> | <u>429,202</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Special | - | 50,000 | 15,336 | 34,664 |
| Support services: | | | | |
| Pupil | 47,500 | 39,931 | 38,935 | 996 |
| Instructional staff | 747,364 | 755,556 | 637,972 | 117,584 |
| Administration | 2,942,959 | 2,878,447 | 2,465,001 | 413,446 |
| Fiscal | 98,728 | 94,964 | 83,619 | 11,345 |
| Operations and maintenance | 250,060 | 251,843 | 230,105 | 21,738 |
| Total expenditures | <u>4,086,611</u> | <u>4,070,741</u> | <u>3,470,968</u> | <u>599,773</u> |
| Excess of revenues over (under) expenditures | <u>(1,009,157)</u> | <u>(993,287)</u> | <u>35,688</u> | <u>1,028,975</u> |
| Other financing sources (uses): | | | | |
| Advances (out) | - | - | (182,681) | (182,681) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(182,681)</u> | <u>(182,681)</u> |
| Net change in fund balance | <u>(1,009,157)</u> | <u>(993,287)</u> | <u>(146,993)</u> | <u>846,294</u> |
| Fund balance at | | | | |
| beginning of year (restated) | (184,394) | (184,394) | (184,394) | - |
| Prior year encumbrances appropriated . . | 229,429 | 229,429 | 229,429 | - |
| Fund balance at end of year | <u>\$ (964,122)</u> | <u>\$ (948,252)</u> | <u>\$ (101,958)</u> | <u>\$ 846,294</u> |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

| | Governmental Activities - Internal Service Funds |
|--|---|
| | |
| Assets: | |
| Current assets: | |
| Equity in pooled cash and cash equivalents. | \$ 409,749 |
| Total assets | 409,749 |
| | |
| Liabilities: | |
| Accounts payable. | 4,557 |
| Interfund loans payable. | 150,000 |
| Claims payable | 423,431 |
| Total liabilities | 577,988 |
| | |
| Net assets: | |
| Unrestricted. | (168,239) |
| Total net assets | \$ (168,239) |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004**

| | Governmental Activities - Internal Service Funds |
|--|---|
| | |
| Operating revenues: | |
| Charges for services | \$ 2,510,533 |
| Other | 42,377 |
| Total operating revenues | 2,552,910 |
| Operating expenses: | |
| Purchased services. | 59,833 |
| Materials and supplies. | 2,821 |
| Claims. | 2,812,174 |
| Other. | 1,344 |
| Total operating expenses | 2,876,172 |
| Operating loss before transfers | (323,262) |
| Transfer in | 280,424 |
| Change in net assets. | (42,838) |
| Net assets at beginning of year | (125,401) |
| Net assets at end of year | \$ (168,239) |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF CASH FLOWS,
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2004**

| | Governmental Activities - Internal Service Funds |
|---|---|
| | Funds |
| Cash flows from operating activities: | |
| Cash received from charges for services | \$ 2,510,533 |
| Cash received from other operations | 42,377 |
| Cash payments for purchased services | (55,773) |
| Cash payments for materials and supplies. | (2,821) |
| Cash payments for claims | (3,016,689) |
| Cash payments for other expenses. | (1,061) |
| | (523,434) |
| Net cash used in operating activities | (523,434) |
| Cash flows from noncapital financing activities: | |
| Cash received from transfers in | 280,424 |
| Cash received from interfund loans | 150,000 |
| | 430,424 |
| Net cash provided by noncapital financing activities | 430,424 |
| Net decrease in cash and cash equivalents | (93,010) |
| Cash and cash equivalents at beginning of year . . . | 502,759 |
| Cash and cash equivalents at end of year | \$ 409,749 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss. | \$ (323,262) |
| Changes in assets and liabilities: | |
| Increase in accounts payable | 4,176 |
| Decrease in claims payable | (204,348) |
| | (199,172) |
| Net cash used in operating activities | \$ (523,434) |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
STATEMENT OF FIDUCIARY NET ASSETS,
FIDUCIARY FUNDS
June 30, 2003**

| | | <u>Agency</u> |
|---|-----------|----------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ | 449,493 |
| Receivables: | | |
| Accounts | | 36,070 |
| Intergovernmental | | 466,803 |
| Total assets. | \$ | 952,366 |
| Liabilities: | | |
| Accounts payable. | \$ | 43,704 |
| Accrued wages and benefits | | 17,299 |
| Compensated absences payable | | 53,676 |
| Intergovernmental payable | | 837,687 |
| Total liabilities | \$ | 952,366 |

See accompanying notes to the basic financial statements

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

1. DESCRIPTION OF THE CENTER

The Franklin County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally-elected five member Governing Board form of government and provides educational services as mandated by State or Federal agencies. The Governing Board controls the Educational Service Center's staff that provides services to over 86,219 students and other community members in Franklin County.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to the four local school districts in Franklin County and also has city/county agreements with nine city school districts. In addition, the Educational Service Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education projects, Ohio Coalition of Children with Disabilities, and the Catholic Diocese.

The Center serves local school districts: Canal Winchester Local School District, Groveport Madison Local School District, Hamilton Local School District, Plain Local School District and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 41 administrators, 184 certified and 230 non-certified personnel.

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 composed 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 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 have access to 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

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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). The following organizations are described due to their relationship with the Center.

JOINTLY GOVERNED ORGANIZATIONS

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

Central Ohio Special Education Regional Resource Center (SERRC) - The SERRC is a special education service center and is a part of the Ohio Department of Education. The Center 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 the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

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.

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.

Permanent Improvement Fund - The permanent improvement fund is used to account for all transactions related to the acquiring, construction, or improving of permanent improvement.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The other governmental funds of the Center account for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the Center's proprietary funds:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service funds of the Center account for a self-insurance program which provides medical benefits to employees and the Leadership Academy program.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for various resources held for other organizations and individuals.

C. Basis of Presentation and Measurement Focus

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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Center.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service funds is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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. Proprietary and governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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,

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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: tuition, grants, and contract services.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the Center during the fiscal year for which payment is not received in the available period. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Budgets and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

Appropriations - An annual appropriation measure must be passed by the Governing Board by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund at the object level.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of

Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types" in accordance with the budget basis of accounting.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental 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 federal agency securities and investments in the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exception: investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

The Center has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$80,502, which includes \$33,761 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 fiscal year-end is provided in Note 4.

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 maintains a capitalization threshold of five hundred dollars. The Center does not possess any infrastructure. 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 capitalized.

Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|-------------------------|--|
| Improvements | 15 - 30 years |
| Furniture and equipment | 5 - 20 years |
| Vehicles | 5 - 15 years |

H. Compensated Absences

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

I. Accrued Liabilities and Long-Term Obligations

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

J. 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 and prepayments.

K. 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 the enabling legislation or 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.

L. 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.

M. 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.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Center, these revenues are charges for services for self-insurance programs and the Leadership Academy. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Interfund activities between governmental funds are eliminated in the statement of activities.

P. 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 2004.

3. ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

A prior period adjustment was required at June 30, 2003 to properly state grants receivable in accordance with GASB Statement No. 33 (in prior years these grants were recorded as expenditure driven) and compensated absences in accordance with GASB Interpretation No. 6. In addition, a fund reclassification was required to properly reflect the intended purpose of funds previously reported as agency. The prior period adjustments and fund reclassification had the following effect on fund balance and net assets as previously reported.

| | <u>General</u> | <u>Title VI-B</u> | <u>Permanent Improvement</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|---------------------|-------------------|----------------------------------|-------------------|---------------------|
| Fund balance at June 30, 2003 | \$ 5,166,168 | \$ (156,590) | \$ 2,000,000 | \$ 268,106 | \$ 7,277,684 |
| Adjustment for grants receivable | - | 932,114 | - | 299,074 | 1,231,188 |
| Adjustment for GASB Interpretation No. 6 | 32,754 | 25,312 | - | 1,146 | 59,212 |
| Fund reclassification | <u>-</u> | <u>-</u> | <u>-</u> | <u>289,892</u> | <u>289,892</u> |
| Restated fund balance at July 1, 2003 | <u>\$ 5,198,922</u> | <u>\$ 800,836</u> | <u>\$ 2,000,000</u> | <u>\$ 858,218</u> | <u>\$ 8,857,976</u> |
| Net assets at June 30, 2003 | \$ 7,128,758 | | | | |
| Adjustment for grants receivable | 1,296,829 | | | | |
| Adjustment for fund reclassification | <u>394,892</u> | | | | |
| Restated net assets at July 1, 2003 | <u>\$ 8,820,479</u> | | | | |

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3. ACCOUNTABILITY AND COMPLIANCE - CONTINUED

B. Deficit Fund Balances

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

| | <u>Deficit</u> |
|------------------------------|----------------|
| <u>Nonmajor Funds</u> | |
| Head Start | \$ 2,781 |
| Title I | 13,541 |
| Miscellaneous Federal Grants | 38,421 |
| PIE | 31,648 |

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 combined balance sheet 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 Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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;

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4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - CONTINUED

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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At year-end, the carrying amount of the Center's deposits was \$5,231,693 and the bank balance was \$5,445,094. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and

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4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS - CONTINUED

2. \$5,145,094 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the 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.

Investments: The Center's investments are categorized below to give an indication of the level of custodial credit 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. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

| | Category <u>3</u> | Reported <u>Amount</u> | Fair <u>Value</u> |
|---------------------------|----------------------|---------------------------|----------------------|
| Federal agency securities | \$ <u>3,136,389</u> | \$ 3,136,389 | \$ 3,136,389 |
| STAR Ohio | | <u>264,781</u> | <u>264,781</u> |
| Total investments | | <u>\$ 3,401,170</u> | <u>\$ 3,401,170</u> |

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:

| | Cash and Cash <u>Equivalents/Deposits</u> | <u>Investments</u> |
|--|--|---------------------|
| GASB Statement No. 9 | \$ 8,632,863 | \$ - |
| Investments of the cash management pool: | | |
| Investment in STAR Ohio | (264,781) | 264,781 |
| Federal agency securities | <u>(3,136,389)</u> | <u>3,136,389</u> |
| GASB Statement No. 3 | <u>\$ 5,231,693</u> | <u>\$ 3,401,170</u> |

5. INTERFUND TRANSACTIONS

- A. 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 | \$ 333,664 |
| | Self-Insurance fund | 150,000 |

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.

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

5. INTERFUND TRANSACTIONS - CONTINUED

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.

B. Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

| | |
|---------------------|-----------|
| Self-Insurance fund | \$200,000 |
| Leadership Academy | \$ 80,424 |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

6. RECEIVABLES

Receivables at June 30, 2004 consisted of intergovernmental (billings to school districts for user charged services) and accounts (charges for individual tuition on other services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

| | |
|-------------------|--------------|
| Accounts | \$ 2,806 |
| Intergovernmental | \$ 2,623,356 |

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

7. CAPITAL ASSETS

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

| | <u>Balance 06/30/03</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 06/30/04</u> |
|---|-----------------------------|------------------|--------------------|-----------------------------|
| <i>Capital assets, being depreciated:</i> | | | | |
| Furniture and equipment | \$ 1,167,637 | \$ 197,514 | \$ (111,540) | \$ 1,253,611 |
| Vehicles | <u>178,479</u> | <u>24,813</u> | <u>-</u> | <u>203,292</u> |
| Total capital assets, being depreciated | <u>1,346,116</u> | <u>222,327</u> | <u>(111,540)</u> | <u>1,456,903</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Furniture and equipment | (497,902) | (113,472) | 75,198 | (536,176) |
| Vehicles | <u>(92,634)</u> | <u>(16,872)</u> | <u>-</u> | <u>(109,506)</u> |
| Total accumulated depreciation | <u>(590,536)</u> | <u>(130,344)</u> | <u>75,198</u> | <u>(645,682)</u> |
| Governmental activities capital assets, net | <u>\$ 755,580</u> | <u>\$ 91,983</u> | <u>\$ (36,342)</u> | <u>\$ 811,221</u> |

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7. CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| <u>Instruction:</u> | |
| Regular | \$ 27 |
| Special | 7,955 |
| Vocational | 1,457 |
| <u>Support Services:</u> | |
| Pupil | 3,182 |
| Instructional staff | 8,676 |
| Administration | 70,838 |
| Fiscal | 4,355 |
| Business | 862 |
| Operations and maintenance | 3,275 |
| Pupil transportation | 16,872 |
| Central | 12,606 |
| Non-instructional services | <u>239</u> |
| Total depreciation expense | <u>\$ 130,344</u> |

8. LONG-TERM OBLIGATIONS

The Center's long-term obligations at fiscal year-end consist of the following:

| | Balance Outstanding <u>06/30/03</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>06/30/04</u> | Amounts Due in <u>One Year</u> |
|----------------------|---|-------------------|---------------------|---|--------------------------------------|
| Compensated absences | \$ 766,729 | \$ 304,829 | \$ (304,769) | \$ 766,789 | \$ 376,184 |
| Total | <u>\$ 766,729</u> | <u>\$ 304,829</u> | <u>\$ (304,769)</u> | <u>\$ 766,789</u> | <u>\$ 376,184</u> |

Compensated absences will be paid from the fund from which the employee's salaries are paid.

9. RISK MANAGEMENT

A. General Risk

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

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

9. RISK MANAGEMENT -CONTINUED

The Center maintains replacement cost insurance on building contents in the amount of \$2,223,500 with supplemental coverage for computers and classroom equipment in the amount of \$480,000. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

B. Workers' Compensation Liability-Public Entity Risk Pool

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

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all school Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Health and Dental Insurance

The Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Cancelled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

9. RISK MANAGEMENT -CONTINUED

A summary of changes in self-insurance claims:

| | <u>Balance</u> <u>June 30, 2004</u> | <u>Balance</u> <u>June 30, 2003</u> |
|---|--|--|
| Claims liabilities at beginning of year | \$ 627,779 | \$ 24,500 |
| Incurred claims | 2,812,341 | 2,681,408 |
| Claims paid | <u>(3,016,689)</u> | <u>(2,078,129)</u> |
| Claim liabilities at end of year | <u>\$ 423,431</u> | <u>\$ 627,779</u> |

10. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center policy and state laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

| <u>Years Service</u> | <u>Vacation Days</u> |
|----------------------|----------------------|
| 1 - 9 | 10 |
| 10 - 19 | 15 |
| 20 - Beyond | 20 |

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

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

11. DEFINED BENEFIT PENSION PLANS – CONTINUED

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$1,100,595, \$1,066,937 and \$939,747 respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

11. DEFINED BENEFIT PENSION PLANS – CONTINUED

The Center's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,256,713, \$1,174,417, and \$1,186,976 respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

12. POSTEMPLOYEMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. 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 \$89,765 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 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.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$274.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$457,582 during the 2004 fiscal year.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

13. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$37. This amount is provided from State resources.

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

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 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures 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).

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
FRANKLIN COUNTY, OHIO**

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

14. BUDGETARY BASIS OF ACCOUNTING - CONTINUED

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue fund is as follows:

| Net Change in Fund Balance | | |
|---|---------------------|-------------------|
| | <u>General Fund</u> | <u>Title VI-B</u> |
| Budget basis | \$ 181,304 | \$ (146,993) |
| Net adjustment for revenue accruals | (529,268) | (1,114,795) |
| Net adjustment for expenditure accruals | (420,685) | 90,357 |
| Net adjustment for other sources/uses | 29,711 | 182,681 |
| Adjustment for encumbrances | 220,952 | 189,351 |
| GAAP basis | \$ (517,986) | \$ (799,399) |

15. 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 not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

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.

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.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2004

| <u>Federal Grantor/ Pass-Through Grantor/ Program Grant Title</u> | <u>Pass Through Entity Number</u> | <u>CFDA Number</u> | <u>Receipts</u> | <u>Expenditures</u> |
|--|---------------------------------------|------------------------|------------------|---------------------|
| <i>U.S. Department of Education/ Ohio Department of Education</i> | | | | |
| Special Education Cluster: | | | | |
| Handicapped State Grants | 6BPT-2003-P | 84.027 | \$ 528,076 | \$ 359,269 |
| | 6BPT-2004-P | | 513,549 | 500,362 |
| | ** | | - | 136,544 |
| | 6BSI-2003-P | | 508,932 | 491,936 |
| | 6BSV-2003-P | | 457,473 | 291,787 |
| | 6BII-2003-P | | 58,437 | 67,102 |
| | 6BAA-2003-P | | 21,875 | 31,250 |
| | 6BSI-2004-P | | 1,599,011 | 1,535,536 |
| | 6BSV-2004-P | | 782,850 | 759,753 |
| | 6BSA-2004-P | | 10,000 | 9,480 |
| | 6BSA-2003-P | | 33,078 | 44,773 |
| | 6BEC-2003-P | | 35,000 | 50,000 |
| | EVST-03 | | - | 21,916 |
| | EVD3-03 | | 1,800 | - |
| | PGS2-2003 | | 62,252 | 76,607 |
| | PPAD-2004 | | 3,041 | 2,513 |
| | 6BSE-2004-P | | 80,000 | 80,000 |
| Special Education - Preschool Grants | PGD2-2003 | 84.173 | 245,000 | 175,623 |
| | PGS1-2004 | | 74,840 | 74,840 |
| | PGD3-2003 | | 5,300 | 13,911 |
| | PGD2-2003 | | 63,000 | 194,503 |
| TOTAL SPECIAL EDUCATION CLUSTER | | | 5,083,513 | 4,917,704 |
| Improving Teacher Quality State Grants | TRSA-2003 | 84.367 | 13,312 | 35,409 |
| | TRSA-2004 | | 65,319 | 126,480 |
| Eisenhower Professional Development | MS-S2-2002 | 84.281 | 28,907 | 19,332 |
| | MSS4-2002 | | 42,000 | - |
| <i>U.S. Department of Education</i> | | | | |
| Special Education--Research and Innovation to Improve Services and Results for Children with Disabilities | | 84.324T | 155,440 | 185,183 |

See accompanying notes to the schedule

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARD RECEIPTS AND EXPENDITURES - CONTINUED
For the Year Ended June 30, 2004

| <u>Federal Grantor/ Pass-Through Grantor/ Program Grant Title</u> | <u>Pass Through Entity Number</u> | <u>CFDA Number</u> | <u>Receipts</u> | <u>Expenditures</u> |
|---|---------------------------------------|------------------------|----------------------------|----------------------------|
| <i>U.S. Department of Labor/Ohio Department Education</i> | | | | |
| WIA Adult | WFJ2-2003 | 17.258 | 7,642 | - |
| <i>U.S. Department of Museum and Library Services</i> | | | | |
| State Library Program | VI-5-03 | 45.310 | <u>162,000</u> | <u>173,919</u> |
| TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES | | | <u>\$ 5,558,134</u> | <u>\$ 5,458,027</u> |

** - Did not locate.

See accompanying notes to the schedule

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
For the Year Ended June 30, 2004**

1. SIGNIFICANT ACCOUNTING PRINCIPLES

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

2. OTHER FEDERAL ASSISTANCE

The Educational Service Center serves as the fiscal agent for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education Project, Ohio Coalition of Children with Disabilities and the Catholic Diocese.

The Educational Service Center receives and disburses federal funds on behalf of the agencies.

These funds have been appropriately excluded from the accompanying schedule, except if the activity was included on the Ohio Department of Education report under the Center's name.



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

Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

We have audited the financial statements of Franklin County Educational Service Center, Franklin County, Ohio (the Service Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing*. We noted one matter involving compliance that we have reported to management of the Service Center in a separate letter dated December 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 and 2004-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above as 2004-001 to be a material weakness. We noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated December 9, 2004.

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

Jones, Cochenour & Co.
December 9, 2004



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

To the Board of Directors
Franklin County Educational Service Center
Columbus, Ohio

Compliance

We have audited the compliance of the Franklin County Educational Service Center, Franklin County, Ohio (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the 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 Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

Jones, Cochenour & Co.

**Jones, Cochenour & Co.
December 9, 2004**

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Findings
OMB Circular A-133 § .505
June 30, 2003

| 1. SUMMARY OF AUDITORS' 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)? | Yes |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510 | No |
| (d)(1)(vii) | Major Programs (list): | <u>Special Education Cluster:</u> Special Education Grants to States CFDA #84.027 Special Education Preschool Grants CFDA #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 |

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Findings
OMB Circular A-133 § .505
June 30, 2004**

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

FINDING NUMBER 2004-001

REPORTABLE CONDITION/MATERIAL WEAKNESS

The schedule of federal expenditures and receipts from the 4502 provided to the auditors' to audit was not complete/correct. There were federal awards listed that were agency funds, there were funds listed that were coded with agency fund account numbers that were special revenue funds, there were CFDA numbers that did not match the ODE report and/or the contract with the funding agency. We recommend in the future when preparing this schedule that the Center utilize the ODE reports and the contracts with the funding agency to determine what the correct CFDA numbers are and to properly categorize the fund between the special revenue and the agency fund.

FINDING NUMBER 2004-002

REPORTABLE CONDITION

The Center has delegated the health insurance claims processing function, which is a significant accounting function, to a third- party administrator. We recommend the Center specify in its contract with the third-party administrator that an annual Tier II SAS 70 audit be performed. The Center should be provided a copy of the SAS 70 audit report timely and should review the report's content. A SAS 70 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide you with a Tier II SAS 70 audit report, we recommend you only contract with a third- party administrator that will provide such a report.

3. FINDING FOR FEDERAL AWARDS

None.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

**Status of Prior Findings
June 30, 2004**

| |
|--|
| <p>STATUS OF PRIOR FINDINGS</p> |
|--|

Finding 2003-001 – Corrected.

Finding 2003-002 – Corrected.

Finding 2003-003 – Corrected.



**Auditor of State
Betty Montgomery**

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800-282-0370

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FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2005**