MADISON CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

TABLE OF CONTENTS

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INDEPENDENT ACCOUNTANT'S REPORT

Madison-Champaign Educational Service Center
Champaign County
1512 South State Route 68, Suite J101
Urbana, Ohio 43078

To the Board of Education:

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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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.

Betty Montgomery

Betty Montgomery
Auditor of State

March 14, 2005

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased $66,748 which represents a 8.17% increase from 2003.

- General revenues accounted for $1,553,972 in revenue or 17.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $7,189,727 or 81.53% of all revenues. The Center had an extraordinary item (reimbursement of an insurance claim) of $74,677 for total revenues of $8,818,376.

- The Center had $8,751,678 in expenses related to governmental activities; $7,189,727 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of $1,553,972 were adequate to provide for these programs.

- The Center's only major governmental funds are the general fund. The general fund had $7,451,043 in revenues and other financing sources and $7,390,530 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased $60,513 from $797,979 to $858,492.

Using these Basic Financial Statements

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

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

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 accounts all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

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

Reporting the Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center is the trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on pages 19. 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 21-43 of this report.

The Center as a Whole

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

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

Net Assets

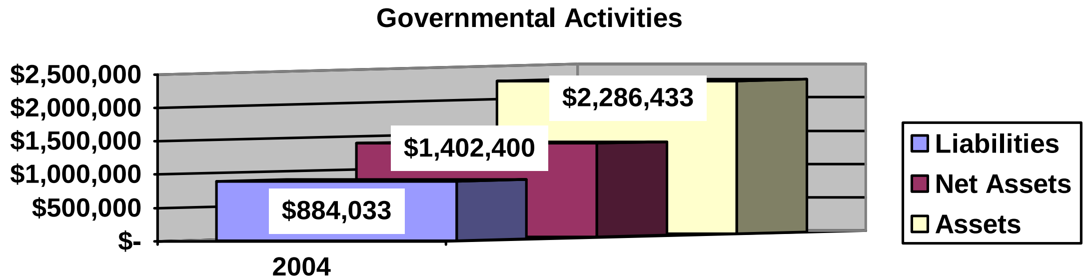
	Governmental Activities 2004
Assets	
Current and other assets	$2,096,534
Capital assets, net	189,899
Total assets	2,286,433
Liabilities	
Current liabilities	1,097,411
Long-term liabilities	304,989
Total liabilities	1,402,400
Net Assets	
Invested in capital assets, net of related debt	172,306
Restricted	132,496
Unrestricted	579,231
Total net assets	$884,033

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 $884,033. Of this total, $579,231 is unrestricted in use.

At year-end, capital assets represented 8.31% 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 $172,306. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, $132,496, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of $579,231 may be used to meet the Center's ongoing obligations to the students and creditors.

The graph below illustrates the Center's governmental activities assets, liabilities and net assets as at June 30, 2004:



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

Change in Net Assets

	Governmental Activities 2004
Revenues	
Program revenues:	
Charges for services and sales	$6,287,752
Operating grants and contributions	901,975
General revenues:	
Grants and entitlements	1,524,094
Investment earnings	12,731
Other	17,147
Total revenues	$8,743,699

	Activities 2004
Expenses	
Program expenses:	
Instruction:	
Regular	$258,319
Special	3,035,951
Other	21,237
Support services:	
Pupil	1,759,180
Instructional staff	1,793,465
Board of education	27,457
Administration	1,236,612
Fiscal	325,371
Business	9,073
Operations and maintenance	43,543
Pupil transportation	187,490
Central	2,579
Food service operations	51,351
Total expenses	8,751,628
Extraordinary item	
Reimbursement of insurance claim	74,677
Increase in net assets	$66,748

Governmental Activities

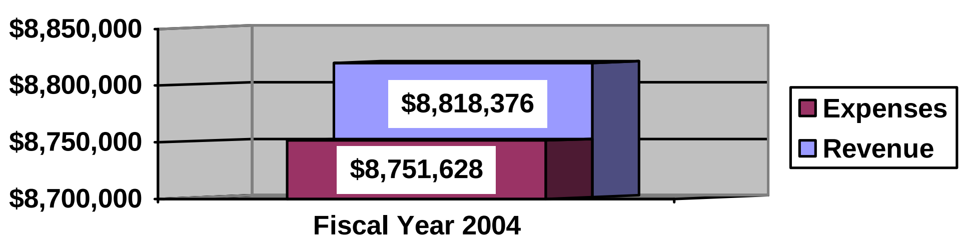
Net assets of the Center's governmental activities increased $66,748. Total governmental expenses of $8,751,628 were offset by program revenues of $7,189,727, general revenues of $1,553,972 and an extraordinary item of $74,677. Program revenues supported 82.15% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contract services and charges for services. These revenue sources represent 71.85% of total governmental revenue.

The largest expense of the Center is for instructional programs. Instruction expenses totaled $3,315,507 or 37.88% of total governmental expenses for fiscal 2004.

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

Governmental Activities - Revenues and Expenses



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 tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

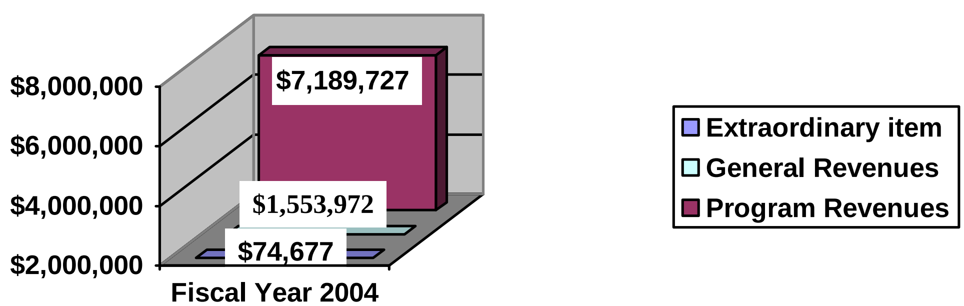
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	$258,319	$13,332
Special	3,035,951	704,272
Other	21,237	(7,001)
Support services:		
Pupil	1,759,180	337,136
Instructional staff	1,793,465	(11,727)
Board of education	27,457	27,457
Administration	1,236,612	125,691
Fiscal	325,371	274,858
Business	9,073	9,073
Operations and maintenance	43,543	26,232
Pupil transportation	187,490	32,077
Central	2,579	2,579
Food service operations	51,351	27,922
Total expenses	$8,751,628	$1,561,901

For all governmental activities, program revenue support is 82.15%. 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



The Center's Funds

The Center's governmental funds reported a combined fund balance of $1,008,383, which is higher than last year's total of $912,727. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Restated Fund Balance June 30, 2003	Increase	Percentage Change
General	$858,492	$797,979	$60,513	7.58 %
Other Governmental	149,891	114,748	35,143	30.63 %
Total	$1,008,383	$912,727	$95,656	10.48 %

General Fund

The Center's general fund's fund balance increased by $60,513 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to revenues and increasing faster than expenditures. Revenues exceed expenditures for fiscal year 2004 by $60,513. On March 3, 2004, the Governor of the State of Ohio issued an executive order to reduce funding to school Centers to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Revenues				
Contract Service	$5,844,594	$5,196,081	$648,513	12.48 %
Earnings on investments	12,731	19,714	(6,983)	(35.42) %
Intergovernmental	1,524,094	1,364,861	159,233	11.67 %
Other revenues	52,031	106,873	(54,842)	(51.32) %
Total	7,433,450	6,687,529	745,921	11.15 %
Expenditures				
Instruction	2,945,255	2,718,753	226,502	8.33 %
Support services	4,402,779	3,930,928	471,851	12.00 %
Capital outlay	17,593		17,593	100.00 %
Total	$7,365,627	$6,649,681	$715,946	10.77 %

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.

During the course of fiscal 2004, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were $7,846,481 and final budgeted revenues and other financing sources were $7,234,798. Actual revenues and other financing sources for fiscal 2004 was $7,369,570. This represents a $134,772 increase over final budgeted revenues. The increase is primarily due to the Center's conservative estimate of contract services revenue.

General fund original appropriations (appropriated expenditures including other financing uses) of $7,809,343 were decreased to $7,263,354 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled $7,222,297, which is $41,057 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Center had $189,899 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	$182,634	$165,931
Vehicles	7,265	7,057
Total	$189,899	$172,988

The overall increase in capital assets of $16,911 is due to capital outlays of $72,814 exceeding disposals of $26,396 (net of accumulated depreciation) and depreciation expense of $29,507 in the fiscal year.

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

Debt Administration

At June 30, 2004, the Center had $17,593 in a capital lease obligation outstanding. Of this total, $2,981 is due within one year and $14,612 is due within greater than one year. The following table summarizes the capital lease obligation outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2004	Governmental Activities 2003
Capital lease obligation	$17,593	$0
Total	$17,593	$0

See Notes 8 and 9 to the basic financial statements for additional information on the Center's capital lease and debt administration.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Judy Geers, Treasurer, Madison-Champaign Education Service Center, 1512 South State Route 68, Suite J101, Urbana, Ohio 43078.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$1,811,507
Receivables:	
Accounts	56,053
Intergovernmental	224,392
Prepayments	4,582
Capital Assets:	
Depreciable Capital Assets, Net	189,899
Total Assets	2,286,433
Liabilities:	
Accounts Payable	54,192
Accrued Wages and Benefits	857,610
Pension Obligation Payable	132,621
Intergovernmental Payable	52,988
Long-Term Liabilities:	
Due Within One Year	41,802
Due Within More Than One Year	263,187
Total Liabilities	1,402,400
Net Assets:	
Invested in Capital Assets, net of Related Debt	172,306
Restricted for:	
Capital Projects	52,678
Other Purposes	79,818
Unrestricted	579,231
Total Net Assets	$884,033

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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:				
Regular	$258,319	$116,790	$128,197	($13,332)
Special	3,035,951	2,252,187	79,492	(704,272)
Other	21,237		28,238	7,001
Support Services:				
Pupil	1,759,180	1,412,466	9,578	(337,136)
Instructional Staff	1,793,465	1,398,374	406,818	11,727
Board of Education	27,457			(27,457)
Administration	1,236,612	1,025,709	85,212	(125,691)
Fiscal	325,371	13,609	36,904	(274,858)
Business	9,073			(9,073)
Operations and Maintenance	43,543	9,848	7,463	(26,232)
Pupil Transportation	187,490	54,687	100,726	(32,077)
Central	2,579			(2,579)
Food Service Operations	51,351	4,082	19,347	(27,922)
Total Governmental Activities	$8,751,628	$6,287,752	$901,975	(1,561,901)

General Revenues:	
Grants and Entitlements Not Restricted To Specific Programs	1,524,094
Investment Earnings	12,731
Miscellaneous	17,147
Total General Revenues	1,553,972
Extraordinary Item:	
Reimbursement of Insurance Claim	74,677
Total General Revenues and Extraordinary Item	1,628,649
Change in Net Assets	66,748
Net Assets at Beginning of Year (Restated)	817,285
Net Assets at End of Year	$884,033

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash			
and Cash Equivalents	$1,604,764	$206,743	$1,811,507
Receivables:			
Accounts	2,181	53,872	56,053
Intergovernmental	196,685	27,707	224,392
Prepayments	4,582		4,582
Total Assets	1,808,212	288,322	2,096,534
Liabilities:			
Accounts Payable	9,523	44,669	54,192
Accrued Wages and Benefits	781,808	75,802	857,610
Compensated Absences Payable	15,418		15,418
Pension Obligation Payable	94,932	9,447	104,379
Intergovernmental Payable	48,039	4,949	52,988
Deferred Revenue		3,564	3,564
Total Liabilities	949,720	138,431	1,088,151
Fund Balances:			
Reserved for Encumbrances	25,340	27,161	52,501
Reserved for Prepayments	4,582		4,582
Unreserved, Undesignated, Reported in:			
General Fund	828,570		828,570
Special Revenue Funds		70,052	70,052
Capital Projects Funds		52,678	52,678
Total Fund balances	858,492	149,891	1,008,383
Total Liabilities and Fund Balances	$1,808,212	$288,322	$2,096,534

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Total Governmental Fund Balances		$1,008,383
Amounts reported for governmental activities in the Statement Of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		189,899
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental revenue	$3,564	
Total		3,564
Long-term liabilities are not due and payale in the current period and therefore are not reported in the funds.		
Compensated absences	271,978	
Pension obligation payable	28,242	
Capital lease obligation	17,593	
Total		(317,813)
Net Assets Of Governmental Activities		$884,033

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From Local Sources:			
Tuition	$34,884	$314,677	$349,561
Charges for Services		4,082	4,082
Earnings on Investments	12,731		12,731
Transportation Fees		55,300	55,300
Classroom Materials and Fees		38,705	38,705
Other Local Revenues	17,147	2,897	20,044
Contract Service Revenue	5,844,594	11,445	5,856,039
Intergovernmental - Intermediate		15,278	15,278
Intergovernmental - State	1,302,396	761,605	2,064,001
Intergovernmental - Federal	221,698	110,083	331,781
Total Revenue	7,433,450	1,314,072	8,747,522
Expenditures:			
Current:			
Instruction:			
Regular	45,451	209,198	254,649
Special	2,899,804	82,928	2,982,732
Adult Continuing		21,052	21,052
Support Services:			
Pupil	1,633,669	116,480	1,750,149
Instructional Staff	1,350,076	448,929	1,799,005
Board of Education	27,023		27,023
Administration	1,048,558	174,953	1,223,511
Fiscal	314,904	48,053	362,957
Business	9,559		9,559
Operations and Maintenance	5,548	37,745	43,293
Pupil Transportation	11,288	187,395	198,683
Central	2,154	425	2,579
Food Service Operations		51,351	51,351
Capital Outlay	17,593		17,593
Total Expenditures	7,365,627	1,378,509	8,744,136
Revenues Over (Under) Expenditures	67,823	(64,437)	3,386
Other Financiang Sources (Uses):			
Proceeds From Capital Lease Transaction	17,593		17,593
Transfers In		24,903	24,903
Transfers (Out)	(24,903)		(24,903)
Total Other Financing Sources (Uses)	(7,310)	24,903	17,593
Extraordinary Item:			
Reimbursement of Insurance Claim		74,677	74,677
Net Change in Fund Balances	60,513	35,143	95,656
Fund Balances at Beginning of Year (Restated)	797,979	114,748	912,727
Fund Balances at End of Year	$858,492	$149,891	$1,008,383

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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

Net Change in Fund Balances - Total Governmental Funds	$95,656
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 outlay ($72,814) exceeds depreciation expense ($29,507) in the current period.	43,307
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.	(26,396)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,823)
Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activites, they are not reported as revenue as they increase the liabilities on the statement of net assets.	(17,593)
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.	(24,403)
Change in Net Assets of Governmental Activities	$ 66,748

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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

	Budgeted Amounts			Variance with Final Budget
	Original	**Final**	**Actual**	**Positive (Negative)**
Revenues:				
From Local Sources:				
Tuition	$18,000	$33,033	$39,314	$6,281
Earnings on Investments	20,000	11,338	12,731	1,393
Other Local Revenues	16,990	15,007	10,536	(4,471)
Contract Service Revenue	6,369,939	5,710,173	5,841,742	131,569
Intergovernmental - State	1,271,552	1,302,396	1,302,396	
Intergovernmental - Federal	150,000	162,851	162,851	
Total Revenue	7,846,481	7,234,798	7,369,570	134,772
Expenditures:				
Current:				
Instruction:				
Regular	46,843	41,467	41,374	93
Special	3,029,157	2,842,232	2,832,760	9,472
Support services:				
Pupil	1,725,371	1,601,851	1,592,242	9,609
Instructional staff	1,438,744	1,377,441	1,371,762	5,679
Board of Education	39,036	30,291	29,427	864
Administration	1,085,188	999,552	988,719	10,833
Fiscal	374,741	315,772	312,354	3,418
Business	7,807	9,734	9,567	167
Operations and Maintenance	15,614	5,521	5,498	23
Pupil Transportation	7,807	11,675	11,538	137
Central	7,807	2,915	2,153	762
Total Expenditures	7,778,115	7,238,451	7,197,394	41,057
Revenues Over (Under) Expenditures	68,366	(3,653)	172,176	175,829
Other Financing Uses:				
Transfers (Out)	(31,228)	(24,903)	(24,903)	
Net Change in Fund Balances	37,138	(28,556)	147,273	175,829
Fund Balance at Beginning of Year	1,410,654	1,410,654	1,410,654	
Prior Year Encumbrances Appropriated	32,544	32,544	32,544	
Fund Balance at End of Year	$1,480,336	$1,414,642	$1,590,471	$175,829

The notes to the basic financial statements are an integral part of this statement.

MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER
CHAMPAIGN COUNTY

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

	Agency
Assets:	
Equity in Pooled Cash and Cash Equivalents	$568
Liabilities:	
Due to Other Governments	$568

The notes to the basic financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE EDUCATION SERVICE CENTER

The Madison-Champaign Educational Service Center (the "Center") is located in Urbana, Ohio, the Champaign County seat. The Center is a county board of education as defined by Section 3311.03 of the Ohio Revised Code. The Center operates under a Board of five elected members. The Center supplies supervisory, special education, administrative, and other services to the Graham, Jefferson, Jonathan Alder, Madison Plains, West Liberty-Salem, and Triad Local School Districts; and Mechanicsburg Exempted Village School District; and London and Urbana City School Districts. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently. The Center is staffed by 81 non-certified employees and 108 certified employees.

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 organizations 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, contract services, and student related programs 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 organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organizations resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship to the Center:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member districts. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

Metropolitan Educational Council

The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 Districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the MEC. The governing board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council. Elmo Kallner, who serves AD Director, 6100 Channingway Boulevard, Suite 604, Columbus, Ohio 43232.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is not-for-profit corporation. The purpose of the corporation is to serve the education needs of the area through television programming for the advancement of educational programs. The Board of Trustees is elected from within the counties by the qualified members within the counties, i.e. Auglazie, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from within the State assigned SOITA service area. One at-large higher educations representative is elected by higher education SOITA members from within the State assigned SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA service area. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Straus, who serves as Director, at 150 East Sixth Street, Franklin Ohio 45005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

West Central Ohio Special Educational Regional Resource Center

The West Central Ohio Special Educational Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating members, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 4 3326-2385.

Central Ohio Special Educational Regional Resource Center

The Central Ohio Special Educational Regional Resource Center (COSERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The COSERRC is governed by a sixty member board consisting of the superintendent from the sixty participating members. The degree of control exercised by any participating member is limited to its representation on the Board. Financial information can be obtained from Melissa Shultz, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43206.

Ohio ESC MAC Consortium

The Center is a participant in the Ohio ESC MAC Consortium (OEMC). OEMC was formed for the purpose of accessing Medicaid Reimbursements for Special Education. OEMC is a Consortium of seven educational service centers. The Consortium has entered into an agreement with Meccatech, Inc. to provide assistance in the form of software systems, consulting, advocacy, data collection, and data processing.

2. Insurance Purchasing Pools

Ohio School Boards Association Workers' Compensation Group Rating Program

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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Financial information can be obtained from Steve Huzizko, Deputy Director of Management Services, at 8050 North High Street, Columbus, Ohio 43235. The intent of the Program is to achieve the benefit of a reduced premium for the district by virtue of its grouping and representation with other participants in the Program. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school district in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the program. Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Gates, McDonald & Company provides administrative, cost control and actuarial services to the Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Champaign, Delaware, Marion, Union Schools Insurance Consortium (CDMU)

CDMU sponsors self-insured medical plans for nine (9) school districts, educational service centers and Board of Education primarily within Champaign, Delaware, Marion, and Union Counties. These plans are for active employees and their covered dependents. Amongst the nine (9) district and service centers, there were three (3) plans/plan options offered to active employees and their dependents during the period under review. CDMU has contracted with CoreSource for all administrative claims processing, claims payment, and customer service at CoreSource's Dublin, Ohio facility.

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.

1. Governmental Funds

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

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.

Other governmental funds of the Center are used to account for all financial resources whose use is restricted to a particular purpose.

2. Proprietary Fund

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no proprietary funds.

3. Fiduciary Fund

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. The Center has no trust funds. The Centers only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Centers agency fund accounts for monies due to other governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation and Measurement Focus

1. Government-Wide Financial Statements

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

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

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

2. Fund Financial Statements

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

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

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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenue – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. 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.

3. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Basis

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

The Center's Board adopts an annual appropriation resolution which is the Board's authorization to spent resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds.

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

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 the State Treasury Asset Reserve of Ohio (STAR Ohio). Investment are reported at fair market value.

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 earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to $12,731, which includes $1,308 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization policy of not capitalizing assets with a cost of less than $500 and a useful life of less than one year. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The Center does not posses infrastructure.

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

Description	Governmental Activities Estimated Lives
Furniture and equipment	7 - 20 years
Vehicles	10 years

H. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets. The Center had no interfund balances at June 30, 2004.

I. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures on the financial statements. For fiscal year 2004, these activities included the Preschool Handicapped special revenue fund (a non-major governmental fund).

J. Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service and all employees with at least ten (10) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and prepayments.

M. Net Assets

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance futures governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. During fiscal year 2004, the District incurred a transaction that would be classified as an extraordinary item. The District received $74,677 in proceeds or reimbursement of insurance claims related to fire damage that occurred during fiscal year 2004.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

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

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

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

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

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

B. Governmental Activities - Fund Reclassification and Restatement of Fund Balance

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

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

	General	Nonmajor	Total
Fund balance June 30, 2003	$783,388	$76,704	$860,092
Fund reclassifications		36,875	36,875
Implementation of GASB Interpretation No. 6	14,591	1,169	15,760
Restated fund balance, June 30, 2003	$797,979	$114,748	$912,727

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

	Total
Restated fund balance, June 30, 2003	$912,727
GASB 34 adjustments:	
Long-term (deferred) assets	7,387
Capital assets	172,988
Pension obligation	(24,921)
Long-term liabilities	(250,896)
Governmental activities net assets, June 30, 2003	$817,285

B. Deficit Fund Balances

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

Nonmajor Funds	Deficit
School Bus Driver Training	$5,370
Management Information Systems	32
Alternative Schools	532
EHA Preschool Grant	3,218

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

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 result from adjustments for accrued liabilities.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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;

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. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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 the 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. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year-end, the Center had $100 in undeposited cash on hand, which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits*:* At year-end, the carrying amount of the Center's deposits was $494,337 and the bank balance was $806,198. Of the bank balance:

1. $167,457 was covered by federal depository insurance; and

2. $638,741 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

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

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

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 or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Center's name.

The Center had investments in STAR Ohio of $1,317,638 at June 30, 2004. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

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 cash equivalents on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$1,812,075	
Investments of the cash management pool:		
Investment in STAR Ohio	(1,317,638)	$1,317,638
Cash on hand	(100)	
GASB Statement No. 3	$494,337	$1,317,638

5. INTERFUND TRANSACTIONS

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:	
General Fund	$24,903

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.

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.

6. RECEIVABLES

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

Governmental Activities:	
Accounts	$56,053
Intergovernmental	224,392
Total	$280,445

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

7. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to a errors and omissions in the amounts reported in the previous year and to include accumulated depreciation on capital assets in accordance with GASB 34.

	Balance 6/30/03	Adjustments	Restated Balance 6/30/03
Governmental Activities			
Capital assets, being depreciated:			
Furniture and equipment	$362,757	$8,612	$371,369
Vehicles	27,805	12,500	40,305
Total capital assets, being depreciated	390,562	21,112	411,674
Less: accumulated depreciation:	-	(238,686)	(238,686)
Governmental activities capital assets, net	$390,562	($217,574)	$172,988

7. CAPITAL ASSETS (Continued)

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

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
Capital assets, not being depreciated:				
Furniture and equipment	$371,369	$64,817	($53,425)	$382,761
Vehicles	40,305	7,997	(22,305)	25,997
Total capital assets, being depreciated	411,674	72,814	(75,730)	408,758
Less: accumulated depreciation				
Furniture and equipment	(205,438)	(27,986)	33,297	(200,127)
Vehicles	(33,248)	(1,521)	16,037	(18,732)
Total accumulated depreciation	(238,686)	(29,507)	49,334	(218,859)
Governmental activities capital assets, net	$172,988	$43,307	($26,396)	$189,899

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$1,992
Special	8,080
Other	130
Support Services:	
Pupil	2,222
Instructional Staff	5,794
Board of Education	434
Administration	7,623
Fiscal	1,744
Pupil transportation	1,488
Total depreciation expense	$29,507

8. CAPITAL LEASE – LESSEE DISCLOSURE

In the current fiscal year, the Center entered into capital lease agreement for a copier. The lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures on the fund financial statements. The Center made no capital lease payments during fiscal 2004. General capital assets acquired by lease have been capitalized in the amount of $17,593, which is equal to the present value of the future minimum payments as of the date of their inception. A corresponding liability was recorded and is presented as a component of long-term liabilities on the statement of net assets.

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

8. CAPITAL LEASE – LESSEE DISCLOSURE (Continued)

Year Ending June 30	Equipment
2005	$4,281
2006	4,281
2007	4,281
2008	4,281
2009	4,281
Total future minimum lease payments	21,405
Less amount representing interest	(3,812)
Present value of future minimum lease payment	$17,593

9. LONG-TERM OBLIGATIONS

The balance of the Center's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased $21,334 from $235,136 to $256,470 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of $24,921 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of $3,587 from $260,057 to $256,470. During fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance 06/30/03	Increase	Decrease	Balance 06/30/04	Amounts Due in One Year
Governmental Activities					
Compensated absences	$256,470	$120,205	($89,279)	$287,396	$38,821
Capital lease	-	17,593	-	17,593	2,981
Total governmental activities long-term liabilities	$256,470	$137,798	($89,279)	$304,989	$41,802

Compensated absences will ultimately be paid from the fund from which the employee is paid. See Note 8 for detail on the capital lease obligation.

10. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation time does not carry beyond the contract year in which it is earned. Accumulated unused vacation time is paid to twelve month employees upon termination of employment. Teachers do not earn vacation time.

10. COMPENSATED ABSENCES (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate on one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, employees with five to ten years of service are paid for one-fifth of accrued, but unused sick leave credit to a maximum of forty days, and employees with over ten years of service are paid for one-fourth of accrued, but unused sick leave credit to a maximum of fifty days.

11. RISK MANAGEMENT

A. Comprehensive

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2004, the Center contracted for the following insurance coverages:

Coverages provided by Harcum-Hyre Insurance are as follows:

Building and contents – replacement cost	$1,000,000
Automotive Liability	1,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

B. Health Care Benefits

The Center provides health insurance and prescription drug benefits through CoreSource. Vision insurance is provided through Vision Service Plan, dental insurance through Anthem Blue Cross Blue Shield, and life insurance through CoreSource, Anthem Blue Cross Blue Shield and Community National Assurance. Insurance premiums vary with each employee depending on marital and family status.

C. Workers' Compensation

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (see Note 2.A.). 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. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the cost of administering the program.

11. RISK MANAGEMENT (Continued)

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 is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. 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 ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 % of their annual covered salary and the Center is required to contribute at an actuarially determined rate of 14% for 2004, 9.09 %was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually, The Center's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were $127,008, $101,611, and $67,202, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

12. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salaries and the Center is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The Center's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were $567,890, $513,244, and $365,595, respectively; 100% has been contributed for fiscal year 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were $7,992 made by the Center and $15,384 made by the plan members.

C. Social Security System

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

13. POSTEMPLOYMENT 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 statue. Both STRS and SERS are funded on a pay-as-you-go-basis.

13. POSTEMPLOYMENT BENEFITS (Continued)

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 $43,684 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 105,000 eligible benefit recipients.

For SERS, coverage is made available to service retirees wit 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 $309.3 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 64,251 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled $90,251 during the 2004 fiscal year.

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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

14. BUDGETARY BASIS OF ACCOUNTING (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance

	General Fund
Budget basis	$ 147,273
Net adjustment for revenue accruals	63,880
Net adjustment for expenditure accruals	(178,606)
Net adjustment for other sources/uses	13,673
Adjustment for encumbrances	14,293
GAAP basis	$ 60,513

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 involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

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.

16. STATE FUNDING

The Center is funded by the State Board of Education from state funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the state's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from state funds to the Center.

If additional funding is needed by the Center, and if a majority of the Boards of Education of the local 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 local school districts served by the Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

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Auditor of State
Betty Montgomery

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

Madison-Champaign Educational Service Center
Champaign County
1512 South State Route 68, Suite J101
Urbana, Ohio 43078

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information the Madison-Champaign Education Service Center, Champaign County, (the "Center"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 14, 2005, wherein we noted the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Center's management in a separate letter dated March 14, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the Center's management in a separate letter dated March 14, 2005.

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This report is intended solely for the information and use of the audit committee, management, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 14, 2005

Auditor of State
Betty Montgomery

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MADISON-CHAMPAIGN EDUCATIONAL SERVICE CENTER

CHAMPAIGN 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
APRIL 12, 2005