



**Auditor of State
Betty Montgomery**

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

North Central Ohio Educational Service Center
Seneca County
244 S. Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Central Ohio Educational Service Center, Seneca County, Ohio, as of June 30, 2004, and the respective changes in financial position and the 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 ESC 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 29, 2005, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussions 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.

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

Betty Montgomery
Auditor of State

March 29, 2005

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

The management's discussion and analysis of the North Central Ohio Educational Service Center's (the ESC) financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the ESC'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 ESC's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$388,314 which represents a 47.98 percent decrease from 2003.
- General revenues accounted for \$2,910,503 in revenue or 32.32 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,094,208 or 67.68 percent of total revenues of \$9,004,711.
- The ESC had \$9,393,025 in expenses related to governmental activities; \$6,094,208 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,910,503 were not adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$8,292,864 in revenues and other financing sources and \$8,664,478 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$371,614 from \$924,591 to \$552,977.

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 ESC 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 ESC, presenting both an aggregate view of the ESC'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 ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC 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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the financial position of the ESC 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 ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The ESC also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC 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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

The ESC as a Whole

Recall that the Statement of Net Assets provides the perspective of the ESC 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 ESC's net assets for 2004.

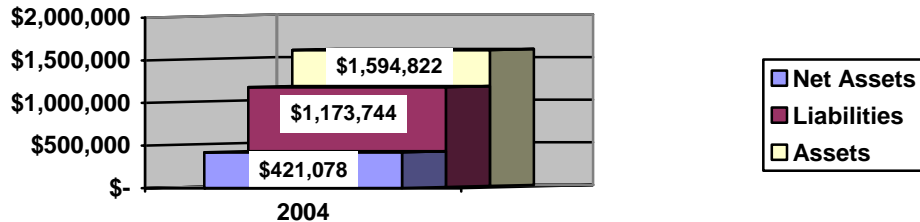
Net Assets	Governmental Activities 2004
Assets	
Current and other assets	\$ 1,458,674
Capital assets	136,148
<i>Total assets</i>	1,594,822
Liabilities	
Current liabilities	828,873
Long-term liabilities	344,871
<i>Total liabilities</i>	1,173,744
Net Assets	
Invested in capital assets, net of related debt	134,532
Restricted	17,362
Unrestricted	269,184
<i>Total net assets</i>	\$ 421,078

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$421,078. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2004, were \$134,532. These net assets are used to provide services to the students and are not available for future spending. A portion of the ESC's net assets, \$17,362, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$269,184 may be used to meet the ESC's ongoing obligations to the students and creditors.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the ESC 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	\$ 5,478,737
Operating grants and contributions	615,471
General revenues:	
Grants and entitlements	2,566,480
Investment earnings	11,999
Other	332,024
<i>Total revenues</i>	<u>9,004,711</u>
Expenses	
Program expenses:	
Instruction:	
Regular	296,004
Special	2,907,511
Support services:	
Pupil	2,209,069
Instructional staff	1,956,918
Board of education	41,601
Administration	927,219
Fiscal	326,093

(Continued)

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Change in Net Assets (Continued)	
Business	117,078
Operations and maintenance	175,478
Pupil transportation	15,982
Central	310,687
Food service operations	12,219
Intergovernmental pass-through	97,012
Interest and fiscal charges	154
<i>Total expenses</i>	<u>9,393,025</u>
<i>Change in net assets</i>	(388,314)
Net assets at beginning of year	<u>809,392</u>
<i>Net assets at end of year</i>	<u>\$ 421,078</u>

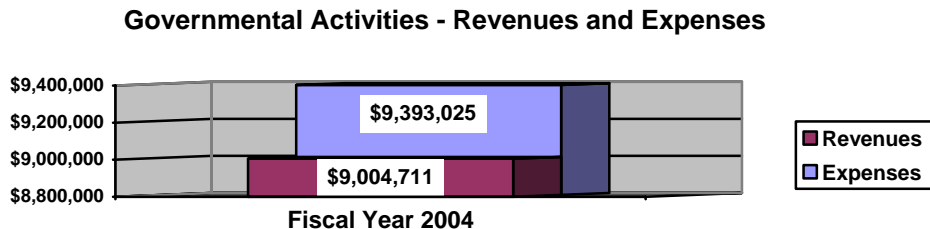
Governmental Activities

Net assets of the ESC's governmental activities decreased \$388,314. Total governmental expenses of \$9,393,025 were offset by program revenues of \$6,094,208 and general revenues of \$2,910,503. Program revenues supported 67.68 percent 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 60.84 percent of total governmental revenue.

The largest expense of the ESC is for support services. Support services expenses totaled \$6,080,125 or 64.73 percent of total governmental expenses for fiscal 2004.

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



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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
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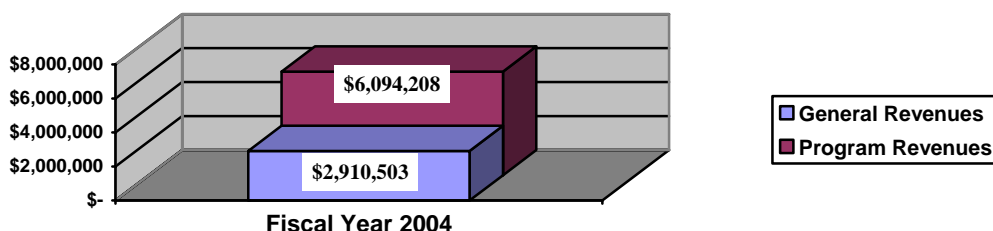
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Governmental Activities		
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 296,004	\$ 245,170
Special	2,907,511	811,313
Support services:		
Pupil	2,209,069	626,799
Instructional staff	1,956,918	505,040
Board of education	41,601	41,601
Administration	927,219	168,806
Fiscal	326,093	316,852
Business	117,078	117,078
Operations and maintenance	175,478	160,042
Pupil transportation	15,982	15,982
Central	310,687	290,323
Food service operations	12,219	370
Intergovernmental pass-through	97,012	(713)
Interest and fiscal charges	154	154
<i>Total expenses</i>	<u>\$ 9,393,025</u>	<u>\$ 3,298,817</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 32.98 percent of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 35.12 percent. The ESC's contract services, as a whole, are by far the primary support for the ESC's students.

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

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$604,955, which is lower than last year's total of \$997,407. 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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	(Decrease)	Percentage Change
General	\$ 552,977	\$ 924,591	\$ (371,614)	(40.19) %
Other Governmental	51,978	72,816	(20,838)	(28.62) %
<i>Total</i>	<u>\$ 604,955</u>	<u>\$ 997,407</u>	<u>\$ (392,452)</u>	(39.35) %

General Fund

The ESC's general fund balance decreased by \$371,614 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceed revenues for fiscal year 2004 by \$376,493. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts 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 services	\$ 5,373,146	\$ 4,663,369	\$ 709,777	15.22 %
Earnings on investments	11,999	21,792	(9,793)	(44.94) %
Intergovernmental	2,566,480	2,603,309	(36,829)	(1.41) %
Other revenues	333,774	362,599	(28,825)	(7.95) %
<i>Total</i>	<u>\$ 8,285,399</u>	<u>\$ 7,651,069</u>	<u>\$ 634,330</u>	8.29 %

	2004 Amount	2003 Amount	Increase (Decrease)	Percentage Change
Expenditures				
Instruction	\$ 3,142,660	\$ 2,832,826	\$ 309,834	10.94 %
Support services	5,518,536	4,801,913	716,623	14.92 %
Debt service	696	13,581	(12,885)	(94.88) %
<i>Total</i>	<u>\$ 8,661,892</u>	<u>\$ 7,648,320</u>	<u>\$ 1,013,572</u>	13.25 %

General Fund Budgeting Highlights

The ESC's budget 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 ESC amended its general fund budget one time. For the general fund, original budgeted revenues and other financing sources were \$7,971,696 and final budgeted revenues and other financing sources were \$8,316,235. Actual revenues and other financing sources for fiscal 2004 was \$8,302,553. This represents a \$13,682 decrease from final budgeted revenues.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,305,062 were increased to \$9,649,600 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$8,625,723, which was \$1,023,877 less than the final budget appropriations.

Variations between original and final budgeted expenditures were caused by the ESC's decision to conservatively budget both revenue and expenditures. The ESC has made efforts to reduce expenses of the ESC in the areas of salary and payroll related benefits.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the ESC had \$136,148 invested in furniture and equipment. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

Capital Assets at June 30 (Net of Depreciation)		
	Governmental Activities	
	2004	2003
Furniture and equipment	\$ 136,148	\$ 174,291
<i>Total</i>	\$ 136,148	\$ 174,291

The overall decrease in capital assets of \$38,143 is due to depreciation expense of \$74,765 and disposals of \$75 (net of accumulated depreciation) exceeding capital outlays of \$36,697 in the fiscal year.

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

Debt Administration

At June 30, 2004, the ESC had \$1,616 in capital lease obligations outstanding. Of this total, \$586 is due within one year and \$1,030 is due within greater than one year. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2004	Governmental Activities 2003
Capital lease obligations	\$ 1,616	\$ 2,158

See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Current Financial Related Activities

As previously noted, there was a \$388,314 decrease in total net assets of government activities. The ESC administration feels this is primarily due to the significant loss of funding through the federal Community Alternative Funding System (CAFS). Between July 1, 2004 and December 31, 2004, the ESC received \$193,277 in CAFS funding for fiscal year 2004. The majority of these funds should have been received prior to June 30, 2004, with a small "run out" amount received after July 1, 2004. It is felt that this cash flow problem was due to two factors. First, it is believed the third party administrator for the ESC's CAFS program did not have sufficient software to adequately submit claims to the Ohio Department of MR/DD in the required format, thus creating delayed submission and therefore delayed reimbursement. The ESC has since changed third party administrators of their CAFS program in an attempt to rectify this portion of the problem.

Secondly, a lawsuit was filed against those state agencies involved in processing and administering the CAFS program by a County Board of MR/DD. Because of the legal rulings regarding this lawsuit, claims processing and reimbursement were delayed by the state agencies involved. The ESC obviously cannot make any changes that would influence any potential state agency processing delays due to the lawsuit.

In an attempt to decrease operating costs the ESC is anticipating working with fewer administrative support staff, and realigning the duties of the remaining staff. Additionally, the ESC is in the beginning phase of restructuring the manner in which it determines program costs, with the intention of including more program overhead costs that had previously been absorbed by the ESC.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Mary F. Hay, Treasurer, North Central Ohio Educational Service Center, 244 S. Washington Street, Tiffin, Ohio 44883.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,164,148
Cash with fiscal agent	151,112
Receivables:	
Intergovernmental	123,982
Prepayments	19,432
Capital assets:	
Depreciable capital assets, net	136,148
<i>Total assets</i>	1,594,822
Liabilities:	
Accounts payable	13,973
Accrued wages and benefits	683,351
Pension obligation payable	103,957
Intergovernmental payable	27,592
Long-term liabilities:	
Due within one year	62,103
Due within more than one year	282,768
<i>Total liabilities</i>	1,173,744
Net Assets:	
Invested in capital assets, net of related debt	134,532
Restricted for:	
Other purposes	17,362
Unrestricted	269,184
<i>Total net assets</i>	\$ 421,078

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA 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	\$ 296,004	\$ 15,257	\$ 35,577	\$ (245,170)
Special	2,907,511	2,080,184	16,014	(811,313)
Support services:				
Pupil	2,209,069	1,557,033	25,237	(626,799)
Instructional staff	1,956,918	1,344,236	107,642	(505,040)
Board of education	41,601	-	-	(41,601)
Administration	927,219	477,059	281,354	(168,806)
Fiscal	326,093	-	9,241	(316,852)
Business	117,078	-	-	(117,078)
Operations and maintenance	175,478	1,750	13,686	(160,042)
Pupil transportation	15,982	-	-	(15,982)
Central	310,687	-	20,364	(290,323)
Operation of non-instructional services:				
Food service operations	12,219	3,218	8,631	(370)
Intergovernmental pass-through	97,012	-	97,725	713
Interest and fiscal charges	154	-	-	(154)
<i>Total governmental activities</i>	\$ 9,393,025	\$ 5,478,737	\$ 615,471	(3,298,817)

General Revenues:

Grants and entitlements not restricted to specific programs	2,566,480
Investment earnings	11,999
Miscellaneous	332,024
<i>Total general revenues</i>	2,910,503
<i>Change in net assets</i>	(388,314)
Net assets at beginning of year (restated)	809,392
<i>Net assets at end of year</i>	\$ 421,078

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,106,585	\$ 57,563	\$ 1,164,148
Cash with fiscal agent	151,112	-	151,112
Receivables:			
Intergovernmental	119,817	4,165	123,982
Interfund receivable	1,912	-	1,912
Prepayments	19,432	-	19,432
<i>Total assets</i>	<u>\$ 1,398,858</u>	<u>\$ 61,728</u>	<u>\$ 1,460,586</u>
Liabilities:			
Accounts payable	\$ 13,840	\$ 133	\$ 13,973
Accrued wages and benefits	677,204	6,147	683,351
Compensated absences payable	5,650	-	5,650
Pension obligation payable	85,191	861	86,052
Intergovernmental payable	26,895	697	27,592
Interfund payable	-	1,912	1,912
Deferred revenue	37,101	-	37,101
<i>Total liabilities</i>	<u>845,881</u>	<u>9,750</u>	<u>855,631</u>
Fund Balances:			
Reserved for encumbrances	23,912	9,190	33,102
Reserved for prepayments	19,432	-	19,432
Unreserved, undesignated, reported in:			
General fund	509,633	-	509,633
Special revenue funds	-	42,788	42,788
<i>Total fund balances</i>	<u>552,977</u>	<u>51,978</u>	<u>604,955</u>
<i>Total liabilities and fund balances</i>	<u>\$ 1,398,858</u>	<u>\$ 61,728</u>	<u>\$ 1,460,586</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Total governmental fund balances		\$ 604,955
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.		136,148
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Contract service revenue		37,101
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	337,605	
Pension obligation payable	17,905	
Capital lease obligation	1,616	
	<u> </u>	<u>(357,126)</u>
<i>Net assets of governmental activities</i>		<u><u>\$ 421,078</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA 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:			
Charges for services	\$ -	\$ 3,218	\$ 3,218
Earnings on investments	11,999	-	11,999
Other local revenues	333,774	63,522	397,296
Contract service revenue	5,373,146	-	5,373,146
Intergovernmental - State	2,321,640	492,534	2,814,174
Intergovernmental - Federal	244,840	122,937	367,777
<i>Total revenue</i>	8,285,399	682,211	8,967,610
Expenditures:			
Current:			
Instruction:			
Regular	263,018	50,755	313,773
Special	2,879,642	16,014	2,895,656
Support services:			
Pupil	2,173,503	25,231	2,198,734
Instructional staff	1,830,459	126,590	1,957,049
Board of education	41,001	600	41,601
Administration	598,303	327,341	925,644
Fiscal	308,687	8,327	317,014
Business	112,266	-	112,266
Operations and maintenance	159,094	13,683	172,777
Pupil transportation	15,982	-	15,982
Central	279,241	20,398	299,639
Food service operations	-	12,219	12,219
Intergovernmental pass through	-	97,012	97,012
Debt service:			
Principal retirement	542	-	542
Interest and fiscal charges	154	-	154
<i>Total expenditures</i>	8,661,892	698,170	9,360,062
<i>Excess of revenues under expenditures</i>	(376,493)	(15,959)	(392,452)
Other financing sources (uses):			
Transfers in	7,465	2,586	10,051
Transfers (out)	(2,586)	(7,465)	(10,051)
<i>Total other financing sources (uses)</i>	4,879	(4,879)	-
<i>Net change in fund balances</i>	(371,614)	(20,838)	(392,452)
Fund balances at beginning of year (restated)	924,591	72,816	997,407
<i>Fund balances at end of year</i>	\$ 552,977	\$ 51,978	\$ 604,955

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA 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 **\$ (392,452)**

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 depreciation expense (\$74,765) exceeds capital outlays (\$36,697) in the current period. (38,068)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (75)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 37,101

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 542

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. 4,638

Change in net assets of governmental activities \$ (388,314)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
From local sources:				
Earnings on investments	\$ 14,379	\$ 15,000	\$ 11,999	(3,001)
Other local revenues	322,901	336,857	341,580	4,723
Intergovernmental - State	2,192,339	2,287,093	2,321,640	34,547
Intergovernmental - Federal	234,696	244,840	244,840	-
Contract service revenue	5,157,900	5,380,826	5,331,235	(49,591)
<i>Total revenue</i>	<u>7,922,215</u>	<u>8,264,616</u>	<u>8,251,294</u>	<u>(13,322)</u>
Expenditures:				
Current:				
Instruction:				
Regular	284,057	294,575	261,413	33,162
Special	3,068,457	3,182,072	2,823,846	358,226
Support services:				
Pupil	2,324,940	2,411,025	2,139,601	271,424
Instructional staff	1,982,090	2,055,481	1,824,082	231,399
Board of education	42,790	44,375	39,379	4,996
Administration	657,230	681,565	604,837	76,728
Fiscal	348,392	361,292	320,619	40,673
Business	121,371	125,865	111,696	14,169
Operations and maintenance	179,286	185,925	164,994	20,931
Pupil transportation	17,487	18,135	16,093	2,042
Central	234,567	243,252	278,307	(35,055)
<i>Total expenditures</i>	<u>9,260,667</u>	<u>9,603,562</u>	<u>8,584,867</u>	<u>1,018,695</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(1,338,452)</u>	<u>(1,338,946)</u>	<u>(333,573)</u>	<u>1,005,373</u>
Other financing sources (uses):				
Refund of prior year expenditure	959	1,000	657	(343)
Refund of prior years receipts	(37)	(38)	(34)	4
Transfers in	38,185	39,835	39,817	(18)
Transfers (out)	(37,964)	(39,370)	(34,938)	4,432
Advances in	10,337	10,784	10,785	1
Advances (out)	(6,394)	(6,630)	(5,884)	746
<i>Total other financing sources (uses)</i>	<u>5,086</u>	<u>5,581</u>	<u>10,403</u>	<u>4,822</u>
<i>Net change in fund balance</i>	<u>(1,333,366)</u>	<u>(1,333,365)</u>	<u>(323,170)</u>	<u>1,010,195</u>
Fund balance at beginning of year (restated)	1,504,406	1,504,406	1,504,406	-
Prior year encumbrances appropriated	40,968	40,968	40,968	-
<i>Fund balance at end of year</i>	<u>\$ 212,008</u>	<u>\$ 212,009</u>	<u>\$ 1,222,204</u>	<u>\$ 1,010,195</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 9,447	\$ 192,039
Receivables:		
Intergovernmental	-	97,847
<i>Total assets</i>	9,447	\$ 289,886
Liabilities:		
Accounts payable	-	\$ 11,842
Intergovernmental payable	-	91,034
Due to students	-	187,010
<i>Total liabilities</i>	-	\$ 289,886
Net Assets:		
Held in trust for scholarships	9,447	
<i>Total net assets</i>	\$ 9,447	

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 16
Gifts and contributions	7,000
<i>Total additions</i>	7,016
Deductions:	
Scholarships awarded	5,801
<i>Change in net assets</i>	1,215
Net assets at beginning of year	8,232
<i>Net assets at end of year</i>	\$ 9,447

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The North Central Ohio Educational Service Center (the ESC) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is a county board of education as defined by § 3311.03 of the Ohio Revised Code. The ESC operates under an elected Board (7 members) and is an administrative entity providing supervision and various other services to the school districts located in Marion, Seneca and Wyandot Counties. The Board is its own fiscal agent and issues its own financial statements. The ESC serves as fiscal agency for the Seneca County Family and Children First Council (The Council) with the rights and responsibilities established by § 121.37 of the Ohio Revised Code. Council funds are maintained in a separate agency fund by the ESC.

The ESC provides regular and special instruction. The ESC also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, and facilities acquisitions. The ESC is staffed by 71 non-certificated employees and 107 certificated employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC 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 ESC 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 ESC'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*" as amended by GASB Statement No. 39 "*Determining Whether Certain Organizations Are Component Units*." 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 ESC are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, foods service, preschool and student related activities of the ESC.

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 area school districts and educational service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating districts are located. Each district's authority is limited to its representation on the Board. The ESC paid \$25,681 to NOECA during fiscal year 2004. Financial information can be obtained by contacting Betty Schwiefert, who serves as Controller, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Marion Area Partners in Education (the Council)

The Council was established in accordance with Ohio Revised Code § 3301.74. The purpose of the Council shall be to provide insight, generate suggestions, and to promote a positive relationship between the school and the community it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within our financial means in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The membership may be selected from the fields of commercial, industrial service, agricultural and governmental agencies. Consideration may also be given to a citizen representative (one) from each of the local districts. Each local superintendent may also serve as an "ex officio" member.

PUBLIC ENTITY RISK POOLS

North Central Ohio Joint Self-Insurance Association (the Association)

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, five school districts - Old Fort, Bettsville, Seneca East, Mohawk, and New Riegel, and one city school, Tiffin. The Association was established pursuant to § 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association, but their financial statements are not reported with the ESC's financial statements.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

B. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the ESC'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 ESC are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs; (b) for grants and other resources whose use is restricted to a particular purpose; or (c) for food service operations.

PROPRIETARY FUND

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC 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 ESC. 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 ESC.

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. 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.

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

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

fiscal year. For the ESC, available means expected to be received within thirty days of fiscal year-end.

Nonexchange transactions, in which the ESC 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 ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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 recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

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

The annual appropriation resolution is enacted by the Board of the ESC at the fund level of expenditures, the legal level of control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenditures of the ESC. Budgetary controls implemented by the ESC require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

established by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Board of the ESC. One supplemental appropriation resolution was legally enacted by the ESC during the year. The budget figures, which appear in the statement of budgetary comparisons, represent the final appropriation amounts including all amendments and modifications.

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the ESC'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 State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

The ESC 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 Board of Education, investment earnings are assigned to the general fund and the private purpose trust funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$11,999, which includes \$2,189 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 ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Capital Assets

General capital 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 ESC maintains a capitalization threshold of \$500. 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 ESC does not possess infrastructure.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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

Description	Governmental Activities Estimated Lives
Furniture and equipment	5 - 20 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.

I. Compensated Absences

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

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

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.

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

The ESC 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.

L. 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 through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. 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.

N. 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.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

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.

P. Extraordinary and Special Items

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

3. ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the ESC 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. 39, "*Determining Whether Certain Organizations are Component Units*", 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, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "*The Financial Reporting Entity*".

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 ESC not being able to present budgetary comparison for the general and each major special revenue fund.

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

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

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

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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 ESC's governmental fund balances as previously reported:

	General	Other Governmental Funds	Total
Fund balance June 30, 2003	\$ 710,331	\$ 68,957	\$ 779,288
Fund reclassifications	212,008	272	212,280
Implementation of GASB Interpretation No. 6	2,252	3,587	5,839
Restated fund balance, June 30, 2003	\$ 924,591	\$ 72,816	\$ 997,407

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

	Total
Restated fund balance, June 30, 2003	\$ 997,407
GASB 34 adjustments:	
Capital assets	174,291
Pension obligation	(18,235)
Long-term liabilities	(344,071)
Governmental activities net assets, June 30, 2003	\$ 809,392

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$1,292,398 to \$1,504,406 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of the ESC'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 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent 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.

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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 ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on hand: At fiscal year-end, the ESC had \$500 in undeposited cash on hand, which is included on the combined balance sheet of the ESC as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with Fiscal Agent: The ESC had cash held by the Ohio Mid-Eastern Regional Education Service Agency, which is included on the balance sheet as "Cash with Fiscal Agent". The money held by the fiscal agent cannot be identified as an investment or deposit since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$151,112.

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

Deposits: At year-end, the carrying amount of the ESC's deposits was \$492,959 and the bank balance was \$1,024,028. Of the bank balance:

1. \$100,000 was covered by federal depository insurance deposited with the ESC; and
2. \$924,028 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 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 ESC. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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

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

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Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
Investment in STAR Ohio	\$ 872,175	\$ 872,175
Total investments	\$ 872,175	\$ 872,175

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 1,516,746	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(872,175)	872,175
Cash with fiscal agent	(151,112)	-
Cash on hand	(500)	-
GASB Statement No. 3	\$ 492,959	\$ 872,175

5. INTERFUND TRANSACTIONS

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

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$ 1,912

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

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

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Transfers to Nonmajor Governmental funds from:		
General Fund	\$	2,586
Transfers to General fund from:		
Nonmajor Governmental Funds	\$	7,465

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 transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

6. RECEIVABLES

Receivables at June 30, 2004 consisted of 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:	
Intergovernmental	\$ 123,982
Total	<u>\$ 123,982</u>

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 errors and omissions in the previous year and the depreciation of capital assets in accordance with GASB Statement No. 34.

	Balance June 30, 2003	Adjustments	Restated Balance July 1, 2003
Governmental Activities			
Furniture and equipment	\$ 1,215,489	\$ (701,370)	\$ 514,119
<i>Total capital assets, being depreciated</i>	1,215,489	(701,370)	514,119
Less: accumulated depreciation:	-	(339,828)	(339,828)
<i>Governmental activities capital assets, net</i>	<u>\$ 1,215,489</u>	<u>\$ (1,041,198)</u>	<u>\$ 174,291</u>

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

	Restated Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Furniture and equipment	\$ 514,119	\$ 36,697	\$ (22,232)	\$ 528,584
<i>Total capital assets, being depreciated</i>	514,119	36,697	(22,232)	528,584
Less: accumulated depreciation				
Furniture and equipment	(339,828)	(74,765)	22,157	(392,436)
<i>Total accumulated depreciation</i>	(339,828)	(74,765)	22,157	(392,436)
Governmental activities capital assets, net	<u>\$ 174,291</u>	<u>\$ (38,068)</u>	<u>\$ (75)</u>	<u>\$ 136,148</u>

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular		\$ 3,453
Special		10,859
Support Services:		
Pupil		12,335
Instructional staff		13,574
Administration		11,315
Fiscal		2,612
Business		3,311
Operations and maintenance		2,701
Central		14,605
<i>Total depreciation expense</i>		<u>\$ 74,765</u>

8. CAPITAL LEASES - LESSEE DISCLOSURE

In a prior year, the ESC entered into capitalized leases for fax equipment. These lease agreements meet the criteria of 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in an amount equal to the present value of the future minimum lease payment at the date of their inception. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$542 paid by the general fund.

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

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Fiscal Year Ending June 30,	Amount
2005	\$ 694
2006	696
2007	404
<i>Total minimum lease payments</i>	1,794
Less amount representing interest	(178)
<i>Total</i>	\$ 1,616

9. LONG-TERM OBLIGATIONS

The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$45,615 from \$296,298 to \$341,913 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. Pension obligations of \$18,235 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$27,379 from \$316,692 to \$344,071. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding July 1 2003	Additions	Reductions	Balance Outstanding June 30, 2004	Amounts Due in One Year
Governmental Activities:					
Compensated absence payable	\$ 341,913	\$ 87,553	\$ (86,211)	\$ 343,255	\$ 61,517
Capital lease obligation	2,158	-	(542)	1,616	586
Total long-term obligations, governmental activities	\$ 344,071	\$ 87,553	\$ (86,753)	\$ 344,871	\$ 62,103

Compensated absences and the pension obligation will ultimately be paid from the fund from which the employee is paid. The capital lease obligation is further described in Note 8.

10. COMPENSATED ABSENCES

Sick Leave:

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of one and one-fourth days for each calendar month under contract. Sick leave is cumulative to 200 days.

Severance Pay:

At the time of retirement from the ESC, a severance amount calculated by a prescribed formula applied to the employee's unused sick leave and daily rate of pay at the time of retirement from the

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ESC is granted to employees in compliance with Ohio law. Upon payment of severance pay, the retiring employee's sick leave accumulation is reduced to zero.

Retirement:

Severance pay is based on a one-time, lump sum payment to eligible employees. An employee's eligibility for severance pay is determined as of the final date of employment. The criteria are as follows:

1. The individual retires from the ESC.
2. Retirement is defined as disability retirement or service retirement under any State or municipal retirement system in this State.
3. The individual must be eligible for disability or service retirement as of the last date of employment with the ESC.
4. The individual must prove acceptance into the retirement system within 120 days of his/her last day of employment by having received and cashed his/her first retirement check.
5. The individual must have not less than 10 years of service with this ESC, the State or its political subdivisions, or any combination thereof. The last 3 years of employment must be with the ESC.
6. The individual must sign for his/her severance check certifying that all eligibility criteria have been met.

The amount of the benefit due an employee shall be calculated as follows:

1. The employee's accrued but unused sick leave will be multiplied by one-fourth and
2. The product will be multiplied by the per diem rate of pay at the time of retirement.
3. Per diem of those administrators previously employed by the Seneca-Wyandot County Educational Service Center under 230 day contracts using 230 contract days.

The amount of the benefit calculated in steps one and two shall not exceed the value of 50 days of accrued but unused sick leave.

Receipt of payment for accrued but unused sick leave eliminates all sick leave credit accrued by the employee.

The Board pays severance pay to the estate or life insurance beneficiary of an employee who qualifies for retirement and who dies while actively employed.

Upon retirement, employees are entitled to compensation at their current rate of pay for all unused vacation leave to their credit up to a maximum of their earned but unused vacation leave for the current year. Per diem of those individuals previously employed by the Seneca-Wyandot County Board of Education under 230 day contracts shall be calculated using 230 contract days.

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11. RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the ESC to the commercial company. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Employee Health Insurance

The ESC is a member of the North Central Joint Insurance Association (the Association). This organization is a public entity risk pool (see Note 2.A.). The Association was established pursuant to ORC § 9.833 in order to provide health care benefits.

Each member school district and educational service center pays premiums to the Association for employee medical, dental, vision, and life insurance premiums. The Association is responsible for the management and operations of the program. Upon withdrawal, the member is responsible for the payment of all Association liabilities to its employees, dependents and designated beneficiaries accruing as a result of the withdrawal. Upon termination of the Association, all ESC's claims would be paid without regard to the ESC's account balance. The Association Board of Directors has the right to return monies to an exiting member subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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 costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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.

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12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14 percent for 2004, 9.09 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$185,844, \$157,720, and \$159,388, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

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

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

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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 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$620,435, \$420,147, and \$402,171, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$5,786 made by the District and \$10,381 made by 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 or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$44,299 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$83,080 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);
- (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:

**NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SENECA COUNTY**

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

Net Change in Fund Balance	
	General Fund
Budget basis	\$ (323,170)
Net adjustment for revenue accruals	34,105
Net adjustment for expenditure accruals	(112,518)
Net adjustment for other sources/uses	(5,524)
Adjustment for encumbrances	35,493
GAAP basis	\$ (371,614)

15. CONTINGENCIES

A. Grants

The ESC 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 ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is party to legal proceedings seeking damages generally incidental to its operations and spending projects. The ESC management is of the opinion that the claim and legal proceedings will not have a material effect, if any, on the financial condition of the ESC.

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

North Central Ohio Educational Service Center
Seneca County
244 S. Washington Street
Tiffin, Ohio 44883-2888

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Ohio Educational Service Center (the ESC) as of and for the year ended June 30, 2004, which collectively comprise the ESC's basic financial statements governmental activities, each major fund and remaining fund information of and have issued our report thereon dated March 29, 2005, in which we noted the ESC implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement and managements 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting to determine our auditing procedures in order to express our opinion(s) on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the ESC's management dated March 29, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 29, 2005



**Auditor of State
Betty Montgomery**

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NORTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SENECA 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
MAY 5, 2005**