



**Auditor of State
Betty Montgomery**

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

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 South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 and the report of the other auditors provide 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 South Central Ohio Educational Service Center, Scioto County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparisons for the General, Cooperative Low Incidence, and Miscellaneous State Grants Funds 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 Educational Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2005, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 7, 2005

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As management of the South Central Ohio Educational Service Center (the Educational Service Center), we offer the readers of the Educational Service Center's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the Educational Service Center's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, "*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*," issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Educational Service Center Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

Net assets of governmental activities increased \$378,589, which represents a 170 percent increase from 2003. This is primarily due to an increase in State grant awards and unrestricted Adult Basic Literacy and Education monies provided from the Northwest Local School District that remained unspent at fiscal year-end.

Total assets of governmental activities increased by \$420,299. Equity in pooled cash and cash equivalents increased \$389,460 due to increases in State grant awards and the receipt of unrestricted Adult Basic Literacy and Education monies from the Northwest Local School District which remained unspent at fiscal year-end.

General revenues accounted for \$1,418,421 in revenue or 18 percent of all total revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$6,279,310 or 82 percent of total revenues of \$7,697,731.

The School District had \$7,319,142 in expenses related to governmental activities; \$6,279,310 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily grants and entitlements) of \$1,418,421 were adequate to provide for these programs.

*South Central Ohio Educational Service Center
Management's Discussion and Analysis
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Using the Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Central Ohio Educational Service Center as a financial whole, an entire operating entity.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's major funds with all other non-major funds presented in total in one column. The major funds for the South Central Ohio Educational Service Center are the General Fund and the Cooperative Low Incidence and Miscellaneous State Grants Special Revenue Funds.

Reporting the Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is "How did we do financially during 2004?"

The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

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

Fiduciary Funds – The Educational Service Center's Fiduciary Funds are Private Purpose Trust Funds and Agency Funds. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary Funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2004 and 2003:

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

(Table 1)
 Net Assets

	Governmental Activities		Increase (Decrease)
	2004	2003	
Assets			
Current Assets	\$1,622,542	\$1,207,507	\$415,035
Capital Assets	294,106	288,842	5,264
Total Assets	1,916,648	1,496,349	420,299
Liabilities			
Long-Term Liabilities	554,200	564,136	(9,936)
Other Liabilities	760,519	708,873	51,646
Total Liabilities	1,314,719	1,273,009	41,710
Net Assets			
Invested in Capital Assets, Net of Related Debt	186,632	157,522	29,110
Restricted	450,819	22,701	428,118
Unrestricted	(35,522)	43,117	(78,639)
Total Net Assets	\$601,929	\$223,340	\$378,589

Total assets increased by \$420,299. This was primarily due to an increase of \$389,460 in equity in pooled cash and cash equivalents. The increase in equity in pooled cash and cash equivalents is related to increases in State grant awards and the receipt of unrestricted Adult Basic Literacy and Education monies from the Northwest Local School District that remained unused as of fiscal year-end. Total liabilities increased \$41,710. This increase is related a three percent increase in wages of the Educational Service Center's employees.

Invested in Capital Assets, Net of Related Debt for governmental activities increased by \$29,110 due primarily to increases in capital assets relating to current year additions exceeding current year depreciation. Restricted Net Assets for governmental activities increased by \$428,118 primarily due to increased State grant awards that remained unspent at fiscal year-end. Unrestricted Net Assets for governmental activities decreased by \$78,639 primarily due to negative restricted net assets in the Cooperative Low Incidence Governmental Fund.

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Unaudited

Table 2, shows the highlights of the Educational Service Center's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services, operating grants and contributions. General Revenues include unrestricted grants, such as state foundation support, investment earnings and miscellaneous revenues.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

(Table 2)
Change in Net Assets

	<u>Governmental Activities 2004</u>
Revenues	
Program Revenues:	
Charges for Services	\$4,069,455
Operating Grants and Contributions	2,209,855
Total Program Revenues	<u>6,279,310</u>
General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	1,403,422
Investment Earnings	14,249
Miscellaneous	750
Total General Revenues	<u>1,418,421</u>
 Total Revenues	 <u>\$7,697,731</u> (continued)

South Central Ohio Educational Service Center
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(Table 2)
Change in Net Assets
(continued)

	Governmental Activities 2004
Program Expenses	
Instruction:	
Regular	\$459,959
Special	2,427,749
Adult/Continuing	192,544
Support Services:	
Pupils	969,244
Instructional Staff	1,384,916
Board of Education	211,776
Administration	1,229,984
Fiscal	255,202
Operation and Maintenance of Plant	38,061
Pupil Transportation	14,349
Central	132,919
Interest and Fiscal Charges	2,439
Total Expenses	7,319,142
Increase in Net Assets	\$378,589

Governmental Activities

Operating Grants and Contributions made up 29 percent of revenues for governmental activities of the South Central Ohio Educational Service Center for fiscal year 2004, while 18 percent of the revenues of governmental activities came from Grants and Entitlements not Restricted to Specific Programs.

Special instruction comprises 33 percent of governmental program expenses. Support services expenses make up 58 percent of governmental expenses.

South Central Ohio Educational Service Center
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Unaudited

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Net costs are costs that must be covered by unrestricted State aid (State Foundation). The difference in these two columns would represent restricted grants, fees and donations.

(Table 3)
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Instruction	\$3,080,252	\$357,832
Support Services	4,236,451	679,561
Interest and Fiscal Charges	2,439	2,439
Total Expenses	<u>\$7,319,142</u>	<u>\$1,039,832</u>

The Educational Service Center's Funds

Information about the Educational Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$7,759,827 and expenditures of \$7,328,818. The net change in fund balance for the year was most significant in the Miscellaneous State Grant Special Revenue Fund, an increase of \$164,978 relating to an increase in the School Improvement Grant award for the fiscal year which remained unspent at fiscal year-end.

General Fund - Budget Highlights

The Educational Service Center'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 year 2004, the Educational Service Center revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 19, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
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Unaudited

For the General Fund, final estimated revenues were \$2,926,750, with original estimated revenues of \$3,015,002, a difference of three percent. This three percent difference was primarily due to programming changes within the Educational Service Center that resulted in fewer charges being assessed to the local school districts.

Final estimated expenditures were \$2,895,475, with original estimated expenditures of \$3,047,788, a difference of five percent. This difference of five percent was primarily due to programming changes within the Educational Service Center.

The School District's ending actual fund balance in the General Fund was \$68,328 above the final budgeted amount.

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had \$294,106 invested in furniture, fixtures and equipment. Table 4 shows fiscal year 2004 balances compared to 2003:

(Table 4)
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Furniture, Fixtures and Equipment	\$294,106	\$288,842

Net Capital Assets increased from the prior year. This increase in furniture, fixtures and equipment is due to current year purchases exceeding current year depreciation.

For more information on capital assets, refer to Note 9 in the notes to the basic financial statements.

*South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Debt

At June 30, 2004, the Educational Service Center had capital lease obligations outstanding of \$107,474, of which \$26,634 is due within one year. Table 5 summarizes the outstanding debt:

(Table 5)
Outstanding Debt, at Year End
Governmental Activities

	<u>2004</u>	<u>2003</u>
Capital Lease	<u>\$107,474</u>	<u>\$131,320</u>

The Educational Service Center has entered into capitalized leases for copier equipment.

For more information on the capital lease, refer to Notes 14 and 15 in the notes to the basic financial statements.

Current Issues

The South Central Ohio Educational Service Center relies heavily on contracts with local and city school districts within the three county area in which it serves. In addition, State foundation per pupil funding and State and federal grants also provide significant sources of revenue to the Educational Service Center.

A major challenge that is being faced by educational service centers statewide is the level of funding by the Ohio Department of Education. Since 1997, the Educational Service Center's state per pupil funding has remained unchanged. This level of funding combined with decreasing enrollment has required us to expand our service offerings in the areas of fiscal, administrative and other services to various entities. These expanded services will help provide the necessary funds to meet operating expenses in the future.

Another major challenge facing the Educational Service Center is a change in State law that no longer requires the county commissioners to provide rent-free facility space. The change, phased in over a five-year period, will be fully implemented by fiscal year 2007. We are currently in the process of negotiating an agreement for office space by the end of the phase out period. This increased cost will ultimately have to flow to those school districts unless a replacement revenue source is found.

South Central Ohio Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 411 Court Street, Room 105, Portsmouth, Ohio 45662, or by calling 740-354-7761.

South Central Ohio Educational Service Center

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,422,864
Accounts Receivable	1,613
Accrued Interest Receivable	1,505
Intergovernmental Receivable	185,615
Prepaid Items	10,945
Capital Assets:	
Depreciable Capital Assets, Net	<u>294,106</u>
<i>Total Assets</i>	<u>1,916,648</u>
<u>Liabilities:</u>	
Accounts Payable	125,423
Accrued Wages and Benefits Payable	440,648
Intergovernmental Payable	151,547
Matured Compensated Absences Payable	42,901
Long-Term Liabilities:	
Due Within One Year	120,418
Due in More Than One Year	<u>433,782</u>
<i>Total Liabilities</i>	<u>1,314,719</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	186,632
Restricted for Other Purposes	450,819
Unrestricted	<u>(35,522)</u>
<i>Total Net Assets</i>	<u>\$601,929</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>			
Governmental Activities			
Instruction:			
Regular	\$459,959	\$107,630	\$381,840
Special	2,427,749	1,816,351	120,480
Adult/Continuing	192,544	153,261	142,858
Support Services:			
Pupils	969,244	950,418	0
Instructional Staff	1,384,916	978,471	546,962
Board of Education	211,776	0	0
Administration	1,229,984	63,324	883,026
Fiscal	255,202	0	117,916
Operation and Maintenance of Plant	38,061	0	4,213
Pupil Transportation	14,349	0	12,560
Central	132,919	0	0
Interest and Fiscal Charges	2,439	0	0
<i>Total Governmental Activities</i>	<u>\$7,319,142</u>	<u>\$4,069,455</u>	<u>\$2,209,855</u>
<u>General Revenues:</u>			
Grants and Entitlements not			
Restricted to Specific Programs			1,403,422
Investment Earnings			14,249
Miscellaneous			750
<i>Total General Revenues</i>			<u>1,418,421</u>
Change in Net Assets			378,589
<i>Net Assets Beginning of Year - See Note 3</i>			<u>223,340</u>
<i>Net Assets End of Year</i>			<u><u>\$601,929</u></u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2004

	General	Cooperative Low Incidence	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$669,068	\$139,858	\$369,495	\$244,443	\$1,422,864
Receivables:					
Accounts	1,613	0	0	0	1,613
Intergovernmental	57,190	3,408	18,557	106,460	185,615
Accrued Interest	1,505	0	0	0	1,505
Interfund	15,167	0	0	0	15,167
Prepaid Items	5,907	5,038	0	0	10,945
<i>Total Assets</i>	<u>\$750,450</u>	<u>\$148,304</u>	<u>\$388,052</u>	<u>\$350,903</u>	<u>\$1,637,709</u>
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable	\$45,239	\$49	\$79,648	\$487	\$125,423
Accrued Wages and Benefits Payable	134,773	259,260	12,180	34,435	440,648
Intergovernmental Payable	31,467	42,695	53,069	8,000	135,231
Interfund Payable	0	0	2,257	12,910	15,167
Matured Compensated Absences Payable	42,901	0	0	0	42,901
Deferred Revenue	35,647	0	18,557	0	54,204
<i>Total Liabilities</i>	<u>290,027</u>	<u>302,004</u>	<u>165,711</u>	<u>55,832</u>	<u>813,574</u>
<u>Fund Balances:</u>					
Reserved for Encumbrances	40,772	5,705	173,281	55,507	275,265
Unreserved, Undesignated (Deficit), Reported in:					
General Fund	419,651	0	0	0	419,651
Special Revenue Funds	0	(159,405)	49,060	239,564	129,219
<i>Total Fund Balances (Deficit)</i>	<u>460,423</u>	<u>(153,700)</u>	<u>222,341</u>	<u>295,071</u>	<u>824,135</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$750,450</u>	<u>\$148,304</u>	<u>\$388,052</u>	<u>\$350,903</u>	<u>\$1,637,709</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balances		\$824,135
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Other capital assets	927,411	
Accumulated depreciation	(633,305)	
Total capital assets		294,106
 Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Intergovernmental	18,557	
Tuition and fees	646	
Customer sales and service	35,001	
		54,204
 Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		
		(16,316)
 Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Capital leases	(107,474)	
Compensated absences	(446,726)	
Total liabilities		(554,200)
 Net Assets of Governmental Activities		 \$601,929

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Cooperative Low Incidence	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Intergovernmental	\$817,711	\$585,711	\$1,326,294	\$975,354	\$3,705,070
Interest	14,249	0	0	0	14,249
Tuition and Fees	1,758,822	1,795,901	0	11,288	3,566,011
Customer Sales and Service	403,195	20,450	0	44,152	467,797
Contributions and Donations	5,950	0	0	0	5,950
Miscellaneous	750	0	0	0	750
<i>Total Revenues</i>	<u>3,000,677</u>	<u>2,402,062</u>	<u>1,326,294</u>	<u>1,030,794</u>	<u>7,759,827</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	51,666	0	0	399,756	451,422
Special	0	2,318,558	53,597	46,123	2,418,278
Adult/Continuing	63,773	0	3,804	110,036	177,613
Support Services:					
Pupils	937,857	0	0	0	937,857
Instructional Staff	838,820	0	351,902	268,904	1,459,626
Board of Education	211,776	0	0	0	211,776
Administration	447,188	0	676,990	88,418	1,212,596
Fiscal	125,335	0	70,972	52,069	248,376
Operation and Maintenance of Plant	33,350	0	0	4,711	38,061
Pupil Transportation	0	0	0	14,349	14,349
Central	128,653	0	0	0	128,653
Capital Outlay	1,963	0	0	0	1,963
Debt Service:					
Principal Retirement	19,542	0	3,673	2,594	25,809
Interest and Fiscal Charges	1,761	0	378	300	2,439
<i>Total Expenditures</i>	<u>2,861,684</u>	<u>2,318,558</u>	<u>1,161,316</u>	<u>987,260</u>	<u>7,328,818</u>
Excess of Revenues Over/(Under) Expenditures	138,993	83,504	164,978	43,534	431,009
<u>Other Financing Sources:</u>					
Inception of Capital Lease	1,963	0	0	0	1,963
<i>Net Change in Fund Balances</i>	140,956	83,504	164,978	43,534	432,972
<i>Fund Balances (Deficit) Beginning of Year - Restated (Note 3)</i>	319,467	(237,204)	57,363	251,537	391,163
<i>Fund Balances (Deficit) End of Year</i>	<u>\$460,423</u>	<u>(\$153,700)</u>	<u>\$222,341</u>	<u>\$295,071</u>	<u>\$824,135</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$432,972

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	120,540	
Depreciation expense	(115,276)	
Excess of capital outlay over depreciation expense		5,264

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Intergovernmental	(97,743)	
Tuition and fees	646	
Customer sales and service	35,001	
		(62,096)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (1,963)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital lease payments		25,809
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences payable	(13,910)	
Increase in intergovernmental payable	(7,487)	
Total (increase)/decrease		(21,397)

Change in Net Assets of Governmental Activities \$378,589

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$825,206	\$800,971	\$818,439	\$17,468
Interest	12,362	11,859	12,118	259
Tuition and Fees	1,767,092	1,715,477	1,752,889	37,412
Customer Sales and Service	404,312	392,620	401,182	8,562
Contributions and Donations	6,030	5,823	5,950	127
<i>Total Revenues</i>	<u>3,015,002</u>	<u>2,926,750</u>	<u>2,990,578</u>	<u>63,828</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	137,066	108,221	108,221	0
Adult/Continuing	46,580	63,964	63,964	0
Support Services:				
Pupils	962,068	935,162	935,162	0
Instructional Staff	1,129,254	852,157	847,657	4,500
Board of Education	68,845	194,855	194,855	0
Administration	464,089	429,708	429,708	0
Fiscal	130,295	126,932	126,932	0
Operation and Maintenance of Plant	34,220	34,179	34,179	0
Central	75,371	150,297	150,297	0
<i>Total Expenditures</i>	<u>3,047,788</u>	<u>2,895,475</u>	<u>2,890,975</u>	<u>4,500</u>
Excess of Revenues Over/ (Under) Expenditures	<u>(32,786)</u>	<u>31,275</u>	<u>99,603</u>	<u>68,328</u>
<u>Other Financing Sources/(Uses):</u>				
Refund of Prior Year Expenditures	0	750	750	0
Advances In	0	170,823	168,298	(2,525)
Advances Out	(2,000)	(185,466)	(182,941)	2,525
<i>Total Other Financing Source/(Uses)</i>	<u>(2,000)</u>	<u>(13,893)</u>	<u>(13,893)</u>	<u>0</u>
Net Change in Fund Balance	(34,786)	17,382	85,710	68,328
Fund Balance at Beginning of Year	453,276	453,276	453,276	0
Prior Year Encumbrances Appropriated	79,536	79,536	79,536	0
Fund Balance at End of Year	<u>\$498,026</u>	<u>\$550,194</u>	<u>\$618,522</u>	<u>\$68,328</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
Cooperative Low Incidence Fund
For the Fiscal Year Ended June 30, 2004

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$578,653	\$578,600	\$585,711	\$7,111
Tuition and Fees	1,774,156	1,774,097	1,795,901	21,804
Customer Sales and Service	19,692	19,803	20,046	243
<i>Total Revenues</i>	2,372,500	2,372,500	2,401,658	29,158
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	2,320,928	2,328,384	2,328,384	0
Net Change in Fund Balance	51,572	44,116	73,274	29,158
Fund Balance at Beginning of Year	57,962	57,962	57,962	0
Prior Year Encumbrances Appropriated	2,868	2,868	2,868	0
Fund Balance at End of Year	<u>\$112,402</u>	<u>\$104,946</u>	<u>\$134,104</u>	<u>\$29,158</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
Miscellaneous State Grants Fund
For the Fiscal Year Ended June 30, 2004

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$420,000	\$821,008	\$1,325,744	\$504,736
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	0	57,225	57,225	0
Adult/Continuing	4,258	4,258	4,258	0
Support Services:				
Instructional Staff	271,449	450,509	450,509	0
Administration	211,344	745,862	745,862	0
Fiscal	21,250	70,873	70,873	0
<i>Total Expenditures</i>	508,301	1,328,727	1,328,727	0
Excess of Revenues Over (Under) Expenditures	(88,301)	(507,719)	(2,983)	504,736
<u>Other Financing Sources/(Uses):</u>				
Refund of Prior Year Expenditures	0	550	550	0
Advances In	0	22,818	22,818	0
Advances Out	0	(20,561)	(20,561)	0
<i>Total Other Financing Sources/(Uses)</i>	0	2,807	2,807	0
Net Change in Fund Balance	(88,301)	(504,912)	(176)	504,736
Fund Balance at Beginning of Year	3,867	3,867	3,867	0
Prior Year Encumbrances Appropriated	88,302	88,302	88,302	0
Fund Balance (Deficit) at End of Year	<u>\$3,868</u>	<u>(\$412,743)</u>	<u>\$91,993</u>	<u>\$504,736</u>

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$41,889	\$7,903,512
Receivables:		
Accrued Interest	0	23,910
<i>Total Assets</i>	41,889	\$7,927,422
Liabilities:		
Undistributed Monies	0	\$7,927,422
Net Assets:		
Held in Trust for Scholarships	\$41,889	

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
	Scholarships
<i>Additions:</i>	
Interest	\$2,389
<i>Deductions</i>	0
<i>Change in Net Assets</i>	2,389
<i>Net Assets Beginning of Year</i>	39,500
<i>Net Assets End of Year</i>	\$41,889

See accompanying notes to the basic financial statement.

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South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The South Central Ohio Educational Service Center, Scioto County (the Educational Service Center), is located in Portsmouth, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Adams County/Ohio Valley, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, and Manchester Local School Districts, as well as the Scioto County Joint Vocational School District. The Portsmouth City School District is served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The South Central Ohio Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 39 classified, 58 certified, and 2 administrative personnel that provide services to the local, city, and joint vocational school districts.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the South Central Ohio Educational Service Center, this includes general operations and student developmental activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. The Educational Service Center has no component units.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY (continued)

The Educational Service Center is associated with seven organizations, four of which are defined as jointly governed organizations, one as a public entity shared risk pool, one as an insurance purchasing pool, and one as a related organization. These organizations are the South Central Ohio Computer Association (SCOCA), the Family and Children First Council of Scioto County, the Coalition of Rural and Appalachian Schools, the Pilasco-Ross Special Education Regional Resource Center, the Scioto County Schools Council, the Ohio School Plan, and the Scioto County Joint Vocational School. Information about these organizations is presented in Notes 16, 17, 18, and 19 to the basic financial statements.

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County and Scioto County Schools Council. Accordingly, the activity is presented as agency funds within the Educational Service Center financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no business-type activities.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: Governmental and Fiduciary.

Governmental Funds:

Governmental Funds are those through which most governmental functions of the Educational Service Center 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.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following are the Educational Service Center's major Governmental Funds:

General Fund - The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

Cooperative Low Incidence – The Cooperative Low Incidence Fund is used to account for grant monies and charges for operations which are used for handicapped programs.

Miscellaneous State Grants – The Miscellaneous State Grants Fund is used to account for various grant monies received from State agencies.

The other Governmental Funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's Fiduciary Funds include two Private Purpose Trust Funds used to account for college scholarships and music festival donations and agency funds used to account for the Family and Children First Council of Scioto County and the Scioto County Schools Council.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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 Funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental Funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenue

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

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and which sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, the Educational Service Center's investments were limited to Federal Home Loan Bank Construction Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Corporation Notes, and State Treasury Assets Reserve of Ohio (STAROhio). Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$14,249, which includes \$13,414 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

The only capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Depreciation of furniture, fixtures and equipment is computed using the straight-line method over five to twenty years.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for certified employees and support staff after 10 years of service.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

J. Accrued Liabilities and Long-Term Obligations

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated in the governmental activities column of the statement of net assets.

L. Interfund Transactions

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

M. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and administration expenditures in a special revenue fund. For fiscal year 2004, these funds included the Ohio Reads and Regional Professional Development Centers Special Revenue Funds.

N. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for 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.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditures for specified purposes.

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

P. Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the Educational Service Center has implemented GASB Statement No. 34, “*Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*,” GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, GASB Statement No. 39, “*Determining Whether Certain Organizations are Component Units*”, GASB Statement No. 41, “*Budgetary Comparison Schedules - Perspective Differences.*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”.

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s 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 disclosure.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “*The Financial Reporting Entity*”. The implementation of this new statement had no effect on the Educational Service Center’s financial statements for fiscal year 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the General and Major Special Revenue Funds. The implementation of this statement had no effect on the presentation of budgetary statements by the Educational Service Center for fiscal year 2004.

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 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.

The implementation of these Statements had the following effect on the fund balances of major and nonmajor funds of the Educational Service Center as they were previously reported. The transition from Governmental Fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Cooperative Low Incidence</u>	<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$304,796	(\$238,399)	\$56,225	\$249,804	\$372,426
Interpretation No. 6 Adjustment	<u>14,671</u>	<u>1,195</u>	<u>1,138</u>	<u>1,733</u>	<u>18,737</u>
Adjusted Fund Balances, June 30, 2003	<u><u>\$319,467</u></u>	<u><u>(\$237,204)</u></u>	<u><u>\$57,363</u></u>	<u><u>\$251,537</u></u>	<u><u>391,163</u></u>

GASB 34 Adjustments:

Deferred Assets:

Intergovernmental Receivables 116,300

Capital Assets 288,842

Intergovernmental Payables (8,829)

Long Term Liabilities:

Compensated Absences Payable (432,816)

Capital Leases Payable (131,320)

Adjusted Governmental Activities Net Assets, June 30, 2003 \$223,340

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 – ACCOUNTABILITY

At June 30, 2004, the Cooperative Low Incidence, Alternative School, and EHA Pre-School Special Revenue Funds had deficit fund balances of \$153,700, \$5,261, and \$1,511, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund and Major Special Revenue Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP Basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and the Cooperative Low Incidence and Miscellaneous State Grants Special Revenue Funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Net Change in Fund Balances

	<u>General</u>	<u>Cooperative Low Incidence</u>	<u>Miscellaneous State Grants</u>
GAAP Basis	\$140,956	\$83,504	\$164,978
Adjustments:			
Revenue Accruals	(10,686)	(404)	0
Expenditure Accruals	20,629	(4,072)	110,091
Net Increase in Fair Value of Investments - Fiscal Year 2004	(626)	0	0
Advances	(14,643)	0	2,257
Encumbrances	(49,920)	(5,754)	(277,502)
Budget Basis	<u>\$85,710</u>	<u>\$73,274</u>	<u>(\$176)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Educational Service Center has identified as not required for use within the current five 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 Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
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 Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center’s deposits was \$3,238,854 and the bank balance was \$3,443,341. Of the bank balance, \$100,000 was covered by federal depository insurance and \$3,343,341 was uninsured and uncollaterized. Although the securities serving as collateral are held by the pledging financial institution’s trust department in the Educational Service Center’s name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

	Category 2	Unclassified	Fair Value
Federal Home Loan			
Bank Construction Bonds	\$986,250	\$0	\$986,250
Federal National Mortgage			
Association Bonds	2,960,785	0	2,960,785
Federal Home Loan			
Mortgage Corporation Notes	1,550,745	0	1,550,745
STAROhio	0	631,631	631,631
Total	\$5,497,780	\$631,631	\$6,129,411

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, “*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*”

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$9,368,265	\$0
Investment:		
Federal Home Loan		
Bank Construction Bonds	(986,250)	986,250
Federal National Mortgage		
Association Bonds	(2,960,785)	2,960,785
Federal Home Loan		
Mortgage Corporation Notes	(1,550,745)	1,550,745
STAROhio	(631,631)	631,631
GASB Statement No. 3	<u>\$3,238,854</u>	<u>\$6,129,411</u>

NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$40.52 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school district an amount equal to \$7.40 times the school district's total student count and remits this amount to the Educational Service Center.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING (continued)

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative educational school districts to provide special education and related services or career-technical educational services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts, intergovernmental, accrued interest and interfund amounts. All receivables are considered collectible in full and will be received within one year due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Excess Costs	\$60,598
Adult Basic and Literacy Education	48,177
Title IV-B, Access and Continuation Grant	26,249
Ohio Mathematics Academy Program Module I	18,557
21st Century Grant	18,051
Safe and Drug Free Community Service Grants	7,726
Ohio Alternative Education Challenge Grant	6,154
Early Childhood Special Education Grant	103
Total All Funds	\$185,615

NOTE 9 - CAPITAL ASSETS

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

	<u>Restated Balance at 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/04</u>
<u>Governmental Activities</u>				
Furniture, Fixtures and Equipment	\$806,871	\$120,540	\$0	\$927,411
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(518,029)	(115,276) *	0	(633,305)
Governmental Activities				
Capital Assets, Net	\$288,842	\$5,264	\$0	\$294,106

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$11,405
Special	8,831
Adult	354
Support Services:	
Pupils	3,997
Instructional Staff	39,635
Administration	25,168
Fiscal	3,556
Central	22,330
Total Depreciation Expense	<u><u>\$115,276</u></u>

NOTE 10 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Educational Service Center contracted with Harcum-Schuett for property coverage. Insurance coverage includes the following:

Business Personal Property (\$1,000 deductible)	\$294,106
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During fiscal year 2004, the Educational Service Center participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 18)

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Excess Liability:	
Limit per occurrence/per offense/per accident	\$2,000,000
Aggregate Limit	\$2,000,000
Underlying Coverage:	
Educational General Liability:	
Each Occurrence Limit	\$1,000,000
General Aggregate Limit	\$3,000,000
Products - Completed Operations Aggregate Limit	\$1,000,000
Employer's Liability Stop-Gap:	
Each Accident Limit	\$1,000,000
Per Disease - Each Employee Limit	\$1,000,000
Per Disease - Policy Limit	\$1,000,000
Employee Benefits Liability:	
Each Offense Limit	\$1,000,000
Aggregate Limit	\$3,000,000
Educational Legal Liability:	
Errors and Omissions Injury Limit	\$1,000,000
Errors and Omissions Injury Aggregate Limit	\$2,000,000
Defense Costs Cap	\$1,000,000
Automobile Liability:	
Each Accident Limit	\$1,000,000
Liability Hired - Non-Owned	\$1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from last year.

The Educational Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The Educational Service Center participates in and is fiscal agent for the Scioto County Schools Council (the Council), a public entity shared risk pool (Note 17), consisting of school districts within the County offering medical and dental insurance to their employees. Monthly premiums are paid to the Educational Service Center as fiscal agent, who in turn pays the claims.

The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. Such claims and expenses shall be paid from the funds of the Council.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. 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 Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$105,004, \$78,036, and \$48,324, respectively; 92.69 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$7,676 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System of Ohio

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002, were \$391,849, \$402,287, and \$213,041, respectively; 90.01 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$147 made by the Educational Service Center and \$6,543 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$30,142 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, 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 was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$73,033.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 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. SERS has approximately 62,000 participants currently receiving health care benefits.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified staff upon termination of employment through a written agreement with the Board. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through SunLife.

C. Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - CAPITAL LEASES

During fiscal year 2004, and in prior years, the Educational Service Center has entered into capitalized leases for furniture, fixtures and equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 basic financial statements for the governmental funds. These expenditures are reported as program/function expenditures on the budgetary basis.

Capital assets acquired by lease were initially capitalized in the statement of net assets for governmental activities in the amount of \$135,398 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2004 totaled \$25,809 and were paid from the General Fund and the Miscellaneous State Grants and Title I Special Revenue Funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 14 - CAPITAL LEASES (continued)

The assets acquired through capital leases as of June 30, 2004, are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Asset:			
Copier Equipment	<u>\$135,398</u>	<u>\$29,065</u>	<u>\$106,333</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Total Payments</u>
2005	\$28,571
2006	28,571
2007	28,571
2008	<u>26,190</u>
Total	111,903
Less: Amount Representing Interest	<u>(4,429)</u>
Present Value of Net Minimum Lease Payments	<u>\$107,474</u>

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2004 were as follows:

	<u>Amount Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/04</u>	<u>Amounts Due in One Year</u>
<u>Governmental Activities:</u>					
Capital Leases Payable	\$131,320	\$1,963	\$25,809	\$107,474	\$26,634
Compensated Absences	<u>432,816</u>	<u>93,472</u>	<u>79,562</u>	<u>446,726</u>	<u>93,784</u>
Total Governmental Activities					
Long-Term Obligations	<u>\$564,136</u>	<u>\$95,435</u>	<u>\$105,371</u>	<u>\$554,200</u>	<u>\$120,418</u>

Capital leases will be paid from the General Fund and the Miscellaneous State Grants Special Revenue Fund. Compensated absences will be paid from the General Fund and Cooperative Low Incidence, Mental Health, Instructional Media Center, Miscellaneous State Grants, Adult Basic and Literacy Education, EHA Pre-School, and Miscellaneous Federal Grants Special Revenue Funds.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$12,191 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Family and Children First Council of Scioto County

The Family and Children First Council of Scioto County is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Mental Retardation and Development Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local school district with the largest number of pupils residing in the County; a school superintendent representing all other school districts in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2004. Continued existence of the council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the School Districts within that county. The Council provides various services for School District administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Council. The Educational Service Center paid \$300 to the Coalition for services provided during the year.

D. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross County Career and Technology Center, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Gary Duty, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council

The Educational Service Center is a member and fiscal agent of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the Educational Service Center to form the Scioto County Schools Council. The overall objectives of the Council are to formulate and administer programs of health and dental insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health and dental coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The Educational Service Center pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the Educational Service Center's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 411 Court Street, Portsmouth, Ohio 45662.

NOTE 18 – INSURANCE PURCHASING POOL

Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 19 – RELATED ORGANIZATIONS

Scioto County Joint Vocational School

The Scioto County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City School District and three representatives are appointed by the South Central Ohio Educational Service Center. There is no financial benefit/burden relationship between the Scioto County Joint Vocational School and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Joint Vocational School.

NOTE 20 - INTERFUND ACTIVITY

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

		Receivable
		General
		<hr/>
Payable	Miscellaneous State Grants	\$2,257
	All Other Nonmajor Funds	12,910
	Total All Funds	<hr/> <hr/>

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

NOTE 21 – 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 decision 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 Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

South Central Ohio Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 22 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

B. Litigation

The Educational Service Center is currently not party to any pending litigation.

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**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

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

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program - CAFS	N/A	93.778	\$ 49,214	\$ 49,214
Total United States Department of Health and Human Services			<u>49,214</u>	<u>49,214</u>
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States	6BEC-2003-P	84.027	7,500	7,500
	6BSD-2003-P		34,999	40,123
	6BSD-2004-P		<u>11,250</u>	<u>2,523</u>
Total Special Education Grants to States			53,749	50,146
Special Education - Preschool Grants	PGS1-2003-P	84.173	1,553	1,190
	PGS1-2004		<u>48,418</u>	<u>40,923</u>
Total Special Education - Preschool Grants			49,971	42,113
Total Special Education Cluster			103,720	92,259
Adult Education State Grants Program	ABS1-2003-C	84.002	26,339	26,339
	ABS1-2004		<u>46,732</u>	<u>109,547</u>
Total Adult Education State Grants Program			73,071	135,886
Safe and Drug Free Schools and Communities	T4S1-2004-P	84.184C	8,277	11,456
	T4S1-2004		<u>7,107</u>	<u>6,042</u>
Total Safe and Drug Free Schools and Communities			15,384	17,498
Twenty-First Century Community Learning Centers	T1S1-2003	84.287	0	30,977
	T1S1-2004		<u>331,949</u>	<u>336,851</u>
Total Twenty-first Century Community Learning Centers			331,949	367,828
Teacher Quality Enhancement Grant	QES1-2002	84.336	0	300
Title I Grants to Local Educational Agencies	C1ST-2003P	84.010	84,653	114,743
Comprehensive School Reform Demonstration	RFMP-2002	84.332	16,640	16,640
Goals 2000	G2S1-2002	84.276	<u>0</u>	<u>1,585</u>
Total United States Department of Education			<u>625,417</u>	<u>746,739</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 674,631</u>	<u>\$ 795,953</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of the Schedule.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – BASIS OF ACCOUNTING

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

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the federally-funded programs. The Educational Service Center has complied with the matching fund requirements. The expenditure of non-Federal matching funds is not included on this Schedule.



**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**

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

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 the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated July 7, 2005, wherein we noted the Educational Service Center has adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic 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 Educational Service Center's management dated July 7, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's basic 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 management, the Board of Education, federal awarding agencies, and pass-through entities. 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

July 7, 2005



Auditor of State Betty Montgomery

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

South Central Ohio Educational Service Center
Scioto County
411 Court Street, Room 105
Portsmouth, Ohio 45662

To the Board of Education:

Compliance

We have audited the compliance of the South Central Ohio Educational Service Center, Scioto County, Ohio (the Educational Service Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

As described in items 2004-001 and 2004-002 in the accompanying Schedule of Findings and Questioned Costs, the Educational Service Center did not comply with requirements regarding Allowable Costs/Cost Principles and Period of Availability applicable to its Title I Grants to Local Educational Agencies. As described in item 2004-003 in the accompanying Schedule of Findings and Questioned Costs, the Educational Service Center did not comply with requirements regarding Allowable Costs/Cost Principles applicable to its Twenty-First Century Community Learning Centers Grant. Compliance with those requirements is necessary, in our opinion, for the Educational Service Center to comply with requirements applicable to those programs.

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In our opinion, except for the noncompliance described in the preceding paragraph, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the Educational Service Center's management dated July 7, 2005, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the Educational Service Center's management in a separate letter dated July 7, 2005.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

July 7, 2005

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010 Twenty-First Century Community Learning Centers – CFDA # 84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

There were no findings related to the financial statements required to be reported in accordance with GAGAS.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2004-001
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA # 84.010
Federal Award Number/Year	C1ST-2003P
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Cost – Allowable Costs/Cost Principles

OMB Cost Principles Circular A-87 Attachment B Section 11(a) [now Section 8(a), effective June 9, 2004] provides that compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent they satisfy the specific requirements of the Circular.

OMB Cost Principles Circular A-87 Attachment B Section 11h(4) [now Section 8h(4), effective June 9, 2004] provides that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which must, according to subsection (h)(5), (a) reflect an after-the-fact distribution of the actual activity of each employee, (b) account for the total activity for which each employee is compensated, (c) be prepared at least monthly and must coincide with one or more pay periods, and (d) be signed by the employee. Subsection (h)(5)(e) provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

1. The system for establishing the estimates produces reasonable approximations of the activity actually performed;
2. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
3. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

South Central Ohio Educational Service Center charged 72 percent of the salary and related fringe benefits of one Title I Facilitator, without the supporting documentation noted above as being required by OMB Cost Principles Circular A-87. South Central Ohio Educational Service Center charged 39 percent of the salary and related fringe benefits of another Title I Facilitator, without the supporting documentation noted above as being required by OMB Cost Principles Circular A-87. South Central Ohio Educational Service Center charged 39 percent of the salary and related fringe benefits of the Title I Secretary, without the supporting documentation noted above as being required by OMB Cost Principles Circular A-87. There was no documentation to support the reasoning for the allocation of each employee's salary and related fringe benefits. South Central Ohio Educational Service Center made a correcting memo entry on September 30, 2003 in the amount of \$5,534 for Title I salaries paid from the General Fund for Title I personnel for grant period July 1, 2002 to September 30, 2003. No documentation was provided to support the memo entry. As a result, the costs for salary and related fringe benefits of the Title I Facilitators and Title I Secretary amounting to \$54,552 as charged to the Title I Grant are considered to be questioned costs.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number 2004-001 (Continued)

Noncompliance Citation/Questioned Cost – Allowable Costs/Cost Principles (Continued)

We recommend the Educational Service Center develop a method whereby the various activities of the Title I Facilitators and Secretary are documented as they relate to the various Programs and Awards. This documentation should be used to determine the allocation of each employee's salary among the various programs, grants, activities, etc. We further recommend the Educational Service Center's Management review the requirements of OMB Cost Principles Circular A-87 to determine the documentation needed and other requirements related to the allowability of costs to Federal awards to prevent such errors in the future.

Finding Number	2004-002
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA # 84.010
Federal Award Number/Year	C1ST-2003P
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Cost – Period of Availability

20 U.S.C. 1225 (b) (2) states that any funds under any applicable program which, pursuant to paragraph (1) are available for obligation and expenditure in the year succeeding the fiscal year for which they were appropriated shall be obligated and expended in accordance with:

- (A) the federal statutory and regulatory provisions relating to such program which are in effect for such succeeding fiscal year; and
- (B) any program plan or application submitted by such educational agencies or institutions for such educational agencies or institutions for such program for such succeeding fiscal year.

In Ohio, programs included in Ohio Department of Education's (ODE) Consolidated Application have a project period starting with the application approval date through June 30. Any carryover to the subsequent school district fiscal year must be approved by ODE. (OMB Circular A-133 Compliance Supplement, part H (March 2004))

OMB Circular A-133, Compliance Supplement, part H defines an obligation as: not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for. OMB Circular A-133, Compliance Supplement, part H also states that the act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute a final obligation (See also GEPA Section 421(b) 34 CFR sections 76.704 through 76.707).

Obligations must be liquidated prior to submitting the Final Expenditure Report, which must be filed no later than 90 days after the end of the project period. (ODE Federal Fiscal Report Procedures #1 and ODE Superintendent Weekly E-mail, December 6, 2002).

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number 2004-002 (Continued)

Noncompliance Citation/Questioned Cost – Period of Availability (Continued)

The Ohio Department of Education approved the project period of July 1, 2002 through September 30, 2003 noting that all services must be rendered and all encumbrances must occur by September 30, 2003. The Educational Service Center charged salaries and related fringe benefits amounting to \$17,637 during October 2003 and November 2003 to the Fiscal Year 2003 Title I Education Grant. The Educational Service Center made the *cash* payments after September 30, 2003, which was the ending of the period of availability and the *obligation* for these payments was also incurred after September 30, 2003. As a result, the payments for the salaries and related fringe benefits during October 2003 and November 2003 amounting to \$17,637 are considered to be questioned costs.

These \$17,637 in Title I disbursements are also included in the questioned costs for Allowable Costs/Cost Principles in Finding Number 2004-001.

We recommend the Educational Service Center refrain from charging grants for costs for which obligations are incurred subsequent to the ending of the Period of Availability. We further recommend the Educational Service Center review period of availability requirements for grants and consider these requirements as well as contract requirements when budgeting for the grant expenditures. Such activities would help to ensure that funds are properly obligated and obligations are properly liquidated within the period of availability.

Finding Number	2004-003
CFDA Title and Number	Twenty-First Century Community Learning Centers – CFDA # 84.287
Federal Award Number/Year	T1S1-2003 and T1S1-2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation/Questioned Cost – Allowable Costs/Cost Principles

OMB Cost Principles Circular A-87 Attachment B Section 11(a) (now Section 8(a), effective June 9, 2004) provides that compensation for personnel services, including all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not limited to wages, salaries, and fringe benefits, are allowable to the extent that they satisfy the specific requirements of the Circular.

OMB Cost Principles Circular A-87 Attachment B Section 11h(4) (now Section 8h(4), effective June 9, 2004) provides that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which must, according to subsection (h)(5), (a) reflect an after-the-fact distribution of the actual activity of each employee, (b) account for the total activity for which each employee is compensated, (c) be prepared at least monthly and must coincide with one or more pay periods, and (d) be signed by the employee. Subsection (h)(5)(e) provides that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that:

1. The system for establishing the estimates produces reasonable approximations of the activity performed;

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
--

Finding Number 2004-003 (Continued)

Noncompliance Citation/Questioned Cost – Allowable Costs/Cost Principles (Continued)

2. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charge to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
3. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

South Central Ohio Educational Service Center charged \$17,515 of the Assistant Treasurer's salary and \$11,482 of the Finance Clerk's salary to the 21st Century grant without the supporting documentation required by OMB Cost Principles Circular A-87. In addition, on August 29, 2003 memorandum expenditures in the amount of \$1,082 for fiscal salaries and \$448 for fiscal fringe benefits were charged to the grant. There was no documentation to support the reasoning for these allocations. As a result, the costs for salaries and fringe benefits in the amount of \$30,527 are considered to be questioned costs.

We recommend the Educational Service Center develop a method whereby the various activities are documented as they relate to the various programs and awards. This documentation should be used to determine the allocation of each employee's salary among the various programs, grants, activities, etc. We further recommend that Management review the requirements of OMB Cost Principles Circular A-87 to determine the documentation needed and other requirements related to the allowability of costs to Federal awards to prevent such errors in the future.

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	20 U.S.C. Section 7881 – No communication with private schools concerning participation in Twenty-First Century Community Learning Center Grant	Yes	

**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315(c)
FOR THE YEAR ENDED JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	Activity logs will be required and they will be reviewed quarterly by the Treasurer to determine estimated time percentage versus actual time percentage is accurate. Adjustments will be made accordingly based on the time actually spent working on documented activities appropriate to the grant.	July 7, 2005	Andy Riehl, Treasurer
2004-002	Activity logs will be required and they will be reviewed quarterly by the Treasurer to determine estimated time percentage versus actual time percentage is accurate. Adjustments will be made accordingly based on the time actually spent working on documented activities appropriate to the grant. Budget versus actual expenditures will also be reviewed quarterly to determine that spending within the given budget area is appropriate based on the approved budget.	July 7, 2005	Andy Riehl, Treasurer
2004-003	Activity logs will be required and they will be reviewed quarterly by the Treasurer to determine estimated time percentage versus actual time percentage is accurate. Adjustments will be made accordingly based on the time actually spent working on documented activities appropriate to the grant.	July 7, 2005	Andy Riehl, Treasurer



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**SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER
SCIOTO 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
AUGUST 4, 2005**