



**Auditor of State
Betty Montgomery**

WOOD COUNTY EDUCATIONAL SERVICE CENTER

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 our audit provides a reasonable basis for our opinions.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2005, on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 ESC's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

May 31, 2005

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

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

Highlights

Key highlights for fiscal year 2004 are as follows:

- Total net assets increased by \$849,294, or 24 percent, from the prior fiscal year. Much of this increase is the result of an increase in customer services revenues.
- During fiscal year 2004, the Educational Service Center purchased three acres of land in the Bowling Green State University Research Park to build new office facilities. Preliminary site preparation began in the spring of 2004 with actual construction starting in July 2004. Construction was completed and the Educational Service Center moved into the new facilities in February 2005.
- On July 29, 2004, the Educational Service Center (lessee) entered into a lease-purchase agreement with the Columbus Regional Airport Authority (lessor), related to the Ohio Association of School Business Officials (OASBO) Expanded Asset Pooled Financing Program (lease) for acquisition/construction of the new office facilities. A variable monthly rate of interest of 1.64 - 3 percent was charged until the lease was paid off in March 2005.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Wood County Educational Service Center as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For the Educational Service Center, the General Fund and the Building capital projects fund are the most significant funds.

Reporting the Educational Service Center as a Whole

The statement of net assets and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)

These statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the Educational Service Center's activities are reported governmental activities, including instruction, support services, non-instructional services, and intergovernmental activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major funds are the General Fund and the Building capital projects fund.

Governmental Funds - Most of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for fiscal year 2004 compared to fiscal year 2003:

	Governmental Activities	
	2004	2003
Assets:		
Current and Other Assets	\$ 5,907,634	\$ 4,884,830
Capital Assets, Net	376,266	226,200
<i>Total Assets</i>	<u>6,283,900</u>	<u>5,111,030</u>

(Continued)

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)

Table 1 (Continued)
Net Assets

	Governmental Activities	
	2004	2003
Liabilities:		
Current and Other Liabilities	1,359,701	1,065,350
Long-Term Liabilities	526,088	496,863
<i>Total Liabilities</i>	<u>1,885,789</u>	<u>1,562,213</u>
Net Assets:		
Invested in Capital Assets	376,266	226,200
Restricted	678,745	449,830
Unrestricted	3,343,100	2,872,787
<i>Total Net Assets</i>	<u>\$ 4,398,111</u>	<u>\$ 3,548,817</u>

There were some sizable changes in the statement of net assets from the prior fiscal year. A 21 percent increase is reflected in current and other assets and this increase primarily occurred within two asset accounts. Cash and cash equivalents increased in excess of \$634,000, the result of an increase in customer services provided to local school districts in the areas of special instruction activities in autism, emotionally disturbed, multiple disabilities, cognitive and specific learning disabled, and preschool services. Demand for these services continues to increase due to student enrollment increases in these areas. Intergovernmental receivables increased due to an increase in Community Alternative Funding System monies and tuition due from school districts.

The increase in capital assets is from the acquisition of land for the new building construction as well as the start of construction on the building (construction was generally architect fees and site improvements).

Increases in accrued wages and benefits contributed to the increase in current and other liabilities. There were twenty-seven pay periods in fiscal year 2004 rather than the usual twenty-six pay periods. This increase in the number of pay periods is necessary every four to six years since the Educational Service Center pays on a biweekly schedule versus a bimonthly schedule. An additional pay period translates into an additional week of accrued wages for twelve month classified staff in fiscal year 2004. There were also some increases in the costs for insurance benefits.

Table 2 reflects the changes in net assets for fiscal year 2004. Since this is the first year the Educational Service Center has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)

Table 2
Change in Net Assets

	Governmental Activities 2004
Revenues:	
<u>Program Revenues</u>	
Charges for Services	\$ 8,728,918
Operating Grants and Contributions	4,900,509
Capital Grants and Contributions	52,500
<i>Total Program Revenues</i>	<u>13,681,927</u>
<u>General Revenues</u>	
Grants and Entitlements	584,324
Interest	125,589
Gifts and Donations	1,101
Miscellaneous	21,737
<i>Total General Revenues</i>	<u>732,751</u>
<i>Total Revenues</i>	<u>14,414,678</u>
Expenses:	
Instruction:	
Regular	1,038,161
Special	4,588,910
Adult/Continuing	15,030
Support Services:	
Pupils	1,956,458
Instructional Staff	2,620,008
Board of Education	50,199
Administration	1,484,599
Fiscal	378,375
Operation and Maintenance of Plant	54,868
Pupil Transportation	67,899
Central	152,610
Non-Instructional Services	9,765
Intergovernmental	1,148,502
<i>Total Expenses</i>	<u>13,565,384</u>
<i>Increase in Net Assets</i>	<u>\$ 849,294</u>

Program revenues were 95 percent of total revenues for fiscal year 2004 and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 61 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center provides services to six local, two exempted village, and one city school district in Northwest Ohio, as well as some services to various other area school districts and agencies.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004 (Continued)

Charges for special instruction make up the majority of the charges for services with significant levels of regular instruction services as well.

Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget, with 34 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, visual impaired, orthopedic impaired, autistic, emotional disturbed, cognitive and specific learning disabled, and preschool disabled children.

Regular instruction costs (8 percent of total expenses) include opportunity programs, alternative programs, suspension programs, reading recovery services, regular education substitute services, and intervention tutors.

Expenses for the services of a nurse, school psychologist, audiologist, speech therapist, adapted physical education instructors, occupational therapist, and physical therapist represented 19 percent of overall expenses and are reflected as instructional staff support services.

Pupil support services were 14 percent of total expenses. These expenses include the costs of supervisors, school improvement specialists, secretaries, child information management specialists, paraprofessionals (teacher aides), and a technology director.

Intergovernmental expenses include the Reading A to Z, Psych Intern, Hosts, Title VI-B, Title III, and Preschool Handicapped grants. These are flow-through grant resources received and spent by the Educational Service Center on behalf of the school districts.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted State entitlements. Comparisons to fiscal year 2003 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$ 1,038,161	\$ (623,269)
Special	4,588,910	(4,498,052)
Adult/Continuing	15,030	(14,665)
Support Services:		
Pupils	1,956,458	1,076,308
Instructional Staff	2,620,008	2,070,780
Board of Education	50,199	50,199

(Continued)

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)

Table 3 (Continued)
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Administration	1,484,599	1,264,198
Fiscal	378,375	361,088
Operation and Maintenance of Plant	54,868	52,584
Pupil Transportation	67,899	19,821
Central	152,610	144,246
Non-Instructional Services	9,765	(2,398)
Intergovernmental	1,148,502	(17,383)
<i>Total Expenses</i>	<u>\$ 13,565,384</u>	<u>\$ (116,543)</u>

Over 94 percent of the Educational Service Center's costs for providing services are supported by program revenues. Funding for gifted units and preschool units are provided by the State based on the degree and experience of the staff employed in those positions. These units have been and continue to be funded well below actual costs. The remaining costs are covered by general revenues.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular, special, and adult/continuing instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils and instructional staff support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special and regular instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$14,446,770 and expenditures \$13,847,550. The positive difference of \$599,220 in fund balance for the fiscal year indicates that revenues generated within the fiscal year covered current fiscal year expenditures. The fund balance decrease of the General Fund was due to a transfer to establish the Building Fund.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Board requirements and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2004, the Educational Service Center amended its General Fund budget as needed. The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year. The Board adopts an annual appropriations resolution. A review of the budgetary activity of the General Fund reveals that changes from the original budget to the final budget were insignificant as were the changes from the final budget to actual expenditures made.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)

Capital Assets

At June 30, 2004, the Educational Service Center had \$376,266 invested in capital assets (net of accumulated depreciation), an increase of \$150,066, or 66 percent. The increase is due to the purchase of land for the new building as well as the early construction costs. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Current Issues

No increase in funding from the State is expected for fiscal years 2005 or 2006. Costs for services will continue to increase due to salary schedule increases and years of experience increases. Insurance costs will continue their trend of increasing costs. Since the Educational Service Center charges school districts for services based on costs, charges for services will increase in fiscal year 2005.

In 2002, the Ohio General Assembly approved Amended Substitute House Bill 94, the State operating budget bill for the 124th General Assembly. Originally introduced as the "Education Budget", the legislation in its final form contained a provision providing boards of county commissioners with a graduated five-year phase out of the state mandate to provide office space, utilities, and equipment to educational service centers. In fiscal year 2004, the Wood County Commissioners charged the Educational Service Center 40 percent of the costs of the debt service requirements and operational costs of the 639 South Dunbridge office facility. The percentage charged to the Educational Service Center rose to 60 percent in fiscal year 2005, and would have finally been fully phased in at 100 percent in fiscal year 2007 had the Educational Service Center not moved forward and built our own facility.

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 reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Gina R. Fernbaugh, Treasurer, Wood County Educational Service Center, 1867 North Research Drive, Bowling Green, Ohio 43402-8835.

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WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 5,152,346
Accounts Receivable	38,057
Accrued Interest Receivable	4,764
Intergovernmental Receivable	609,997
Prepaid Items	102,470
Nondepreciable Capital Assets	220,273
Depreciable Capital Assets, Net	155,993
<i>Total Assets</i>	6,283,900
Liabilities:	
Accounts Payable	37,915
Contracts Payable	2,541
Accrued Wages and Benefits Payable	1,148,678
Matured Compensated Absences Payable	12,758
Intergovernmental Payable	157,809
Long-Term Liabilities:	
Due Within One Year	53,205
Due in More Than One Year	472,883
<i>Total Liabilities</i>	1,885,789
Net Assets:	
Invested in Capital Assets	376,266
Restricted For:	
Other Purposes	678,745
Unrestricted	3,343,100
<i>Total Net Assets</i>	\$ 4,398,111

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction:					
Regular	\$ 1,038,161	\$ 886,770	\$ 774,660	\$ -	\$ 623,269
Special	4,588,910	7,265,743	1,768,719	52,500	4,498,052
Adult/Continuing	15,030	13,158	16,537	-	14,665
Support Services:					
Pupils	1,956,458	264,342	615,808	-	(1,076,308)
Instructional Staff	2,620,008	50,154	499,074	-	(2,070,780)
Board of Education	50,199	-	-	-	(50,199)
Administration	1,484,599	167,551	52,850	-	(1,264,198)
Fiscal	378,375	17,287	-	-	(361,088)
Operation and Maintenance of Plant	54,868	2,284	-	-	(52,584)
Pupil Transportation	67,899	48,078	-	-	(19,821)
Central	152,610	6,082	2,282	-	(144,246)
Non-Instructional Services	9,765	2,345	9,818	-	2,398
Intergovernmental	1,148,502	5,124	1,160,761	-	17,383
<i>Total Governmental Activities</i>	<u>\$ 13,565,384</u>	<u>\$ 8,728,918</u>	<u>\$ 4,900,509</u>	<u>\$ 52,500</u>	<u>116,543</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	584,324
Interest	125,589
Gifts and Donations	1,101
Miscellaneous	21,737
<i>Total General Revenues</i>	<u>732,751</u>
<i>Change in Net Assets</i>	849,294
Net Assets at Beginning of Year - See Note 3	3,548,817
<i>Net Assets at End of Year</i>	<u>\$ 4,398,111</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Building</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,325,275	\$ 2,145,011	\$ 682,060	\$ 5,152,346
Accounts Receivable	247	-	37,810	38,057
Accrued Interest Receivable	4,764	-	-	4,764
Intergovernmental Receivable	452,072	-	157,925	609,997
Interfund Receivable	90,768	-	-	90,768
Prepaid Items	94,120	-	8,350	102,470
Total Assets	<u>\$ 2,967,246</u>	<u>\$ 2,145,011</u>	<u>\$ 886,145</u>	<u>\$ 5,998,402</u>
 Liabilities and Fund Balances:				
<u>Liabilities</u>				
Accounts Payable	\$ 12,801	\$ -	\$ 25,114	\$ 37,915
Contracts Payable	-	2,541	-	2,541
Accrued Wages and Benefits Payable	1,085,211	-	63,467	1,148,678
Matured Compensated Absences Payable	12,758	-	-	12,758
Intergovernmental Payable	104,279	-	11,668	115,947
Interfund Payable	-	-	90,768	90,768
Deferred Revenue	139,018	-	52,068	191,086
Total Liabilities	<u>1,354,067</u>	<u>2,541</u>	<u>243,085</u>	<u>1,599,693</u>
 <u>Fund Balances:</u>				
Reserved for Encumbrances	28,542	1,921,335	119,060	2,068,937
Unreserved, Reported in:				
General Fund	1,584,637	-	-	1,584,637
Special Revenue Funds	-	-	524,000	524,000
Capital Projects Fund	-	221,135	-	221,135
Total Fund Balances	<u>1,613,179</u>	<u>2,142,470</u>	<u>643,060</u>	<u>4,398,709</u>
Total Liabilities and Fund Balances	<u>\$ 2,967,246</u>	<u>\$ 2,145,011</u>	<u>\$ 886,145</u>	<u>\$ 5,998,402</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities June 30, 2004

Total Governmental Fund Balances			\$ 4,398,709
Amounts reported for governmental activities on the statement of net assets are different because of the following:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			376,266
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:			
Accounts Receivable	28,641		
Intergovernmental Receivable	161,442		
Accrued Interest Receivable	<u>1,003</u>		
			191,086
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources and, therefore, not reported in the funds.			(41,862)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:			
Compensated Absences Payable			<u>(526,088)</u>
<i>Net Assets of Governmental Activities</i>			<u><u>\$ 4,398,111</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Building	Other Governmental	Total Governmental Funds
Revenues:				
Intergovernmental	\$ 2,048,529	\$ -	\$ 2,924,083	\$ 4,972,612
Interest	141,806	-	-	141,806
Tuition and Fees	576,803	-	52,748	629,551
Customer Services	8,239,355	-	187,865	8,427,220
Gifts and Donations	7,750	52,500	9,101	69,351
Miscellaneous	29,213	-	177,017	206,230
<i>Total Revenues</i>	<u>11,043,456</u>	<u>52,500</u>	<u>3,350,814</u>	<u>14,446,770</u>
Expenditures:				
Current:				
Instruction:				
Regular	411,476	-	613,224	1,024,700
Special	4,503,437	-	112,802	4,616,239
Adult/Continuing	-	-	15,030	15,030
Support Services:				
Pupils	1,480,518	-	539,073	2,019,591
Instructional Staff	2,304,817	-	367,126	2,671,943
Board of Education	38,886	-	-	38,886
Administration	1,169,503	-	224,768	1,394,271
Fiscal	359,581	-	17,287	376,868
Operation and Maintenance of Plant	52,436	-	2,432	54,868
Pupil Transportation	62,232	-	8,214	70,446
Central	111,383	-	37,525	148,908
Non-Instructional Services	8,601	-	3,137	11,738
Capital Outlay	-	231,586	18,676	250,262
Intergovernmental	-	-	1,153,800	1,153,800
<i>Total Expenditures</i>	<u>10,502,870</u>	<u>231,586</u>	<u>3,113,094</u>	<u>13,847,550</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>540,586</u>	<u>(179,086)</u>	<u>237,720</u>	<u>599,220</u>
Other Financing Sources (Uses):				
Transfers In	-	2,321,556	7,052	2,328,608
Transfers Out	(2,328,608)	-	-	(2,328,608)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,328,608)</u>	<u>2,321,556</u>	<u>7,052</u>	<u>-</u>
<i>Changes in Fund Balances</i>	<u>(1,788,022)</u>	<u>2,142,470</u>	<u>244,772</u>	<u>599,220</u>
Fund Balances at Beginning of Year - Restated (Note 3)	<u>3,401,201</u>	<u>-</u>	<u>398,288</u>	<u>3,799,489</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,613,179</u>	<u>\$ 2,142,470</u>	<u>\$ 643,060</u>	<u>\$ 4,398,709</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities For the Fiscal Year Ended June 30, 2004

Changes in Fund Balances - Total Governmental Funds		\$ 599,220
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year:</p>		
Capital Outlay	266,292	
Depreciation	<u>(115,613)</u>	150,679
<p>The book value of capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a loss on disposal of capital assets on the statement of activities.</p>		
		(613)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	50,851	
Interest	(16,217)	
Tuition and Fees	2,447	
Miscellaneous	<u>40,496</u>	77,577
<p>Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables representing contractually required pension contributions, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>		
Intergovernmental Payable	51,656	
Compensated Absences Payable	<u>(29,225)</u>	22,431
<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 849,294</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual Comparison General Fund For the Fiscal Year Ended June 30, 2004

	Original	Final	Actual	Variance with Final Budget Over (Under)
Revenues:				
Intergovernmental			\$ 1,956,107	\$ 1,956,107
Interest			142,211	142,211
Tuition and Fees			473,358	473,358
Customer Services			8,239,355	8,239,355
Gifts and Donations			7,750	7,750
Miscellaneous			20,224	20,224
<i>Total Revenues</i>			<u>10,839,005</u>	<u>10,839,005</u>
Expenditures:				
Current:				
Instruction:				
Regular	\$ 424,692	\$ 406,304	404,963	1,341
Special	4,277,978	4,331,087	4,264,298	66,789
Support Services:				
Pupils	1,517,088	1,494,913	1,467,690	27,223
Instructional Staff	2,392,242	2,432,086	2,284,762	147,324
Board of Education	39,650	46,605	45,369	1,236
Administration	1,172,812	1,215,448	1,180,420	35,028
Fiscal	373,093	374,597	361,575	13,022
Operation and Maintenance of Plant	56,824	57,854	47,944	9,910
Pupil Transportation	58,210	62,527	62,128	399
Central	111,079	114,785	109,881	4,904
Non-Instructional Services	7,921	8,688	8,597	91
<i>Total Expenditures</i>	<u>10,431,589</u>	<u>10,544,894</u>	<u>10,237,627</u>	<u>307,267</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(10,431,589)</u>	<u>(10,544,894)</u>	<u>601,378</u>	<u>11,146,272</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	-	-	6,916	6,916
Refund of Prior Year Receipts	(1,000)	(12,550)	(12,523)	27
Other Financing Sources	-	-	8,243	8,243
Other Financing Uses	(50,000)	-	-	-
Advances In	-	-	3,000	3,000
Advances Out	-	(88,373)	(88,373)	-
Transfers Out	-	(2,328,608)	(2,328,608)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(51,000)</u>	<u>(2,429,531)</u>	<u>(2,411,345)</u>	<u>18,186</u>
<i>Changes in Fund Balance</i>	<u>(10,482,589)</u>	<u>(12,974,425)</u>	<u>(1,809,967)</u>	<u>11,164,458</u>
Fund Balance at Beginning of Year	4,026,317	4,026,317	4,026,317	-
Prior Year Encumbrances Appropriated	69,470	69,470	69,470	-
<i>Fund Balance at End of Year</i>			<u><u>\$ 2,285,820</u></u>	<u><u>\$ 11,164,458</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Fiduciary Assets and Liabilities
Private Purpose Trust Fund
June 30, 2004

Assets:

Equity in Pooled Cash and Cash Equivalents

\$ 1,241

Net Assets:

Unrestricted

\$ 1,241

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

Additions:

Interest	<u>\$ 12</u>
<i>Change in Net Assets</i>	12
Net Assets at Beginning of Year	<u>1,229</u>
<i>Net Assets at End of Year</i>	<u><u>\$ 1,241</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - REPORTING ENTITY

The Wood County Educational Service Center (the Educational Service Center) is located in Bowling Green, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Eastwood, Elmwood, Lake, Northwood, North Baltimore, and Otsego Local School Districts; Perrysburg and Rossford Exempted Village School Districts; and Bowling Green City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Wood County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has six administrators, one hundred seventy-five classified employees, and one hundred sixty-four certified employees who provide services to the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 Wood County Educational Service Center, this includes general operations and student-related 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. There are no component units of the Wood County Educational Service Center.

The Educational Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Penta County Joint Vocational School, the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the Wood County Insurance Consortium, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Wood County 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. Following are the more significant of the Educational Service Center's accounting policies.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide financial 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 statement of net assets presents the financial condition of the government activities of the Educational Service Center at fiscal 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 activity is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the fiscal 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. There are two categories of funds used by the Educational Service Center, 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. The Educational Service Center's two major funds are the General Fund and the Building capital projects fund.

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund - The Building Fund is used to account for monies used to construct a new building.

The other governmental funds of the Educational Service Center account for grants and other resources 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 not available to support the Educational Service Center's own programs. The Educational Service Center's private purpose trust fund accounts for monies used for scholarships or other educational purposes as determined by the Trusts' board of trustees. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center does not have any agency funds.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of 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.

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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

D. Basis of Accounting

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

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, 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 fiscal year when the resources are required to be used or the fiscal 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis, 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 governmental funds.

E. Budgetary Process

The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

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 statement represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$141,806, which includes \$21,719 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. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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 purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Educational Service Center maintains a capitalization threshold of one thousand dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Useful Lives
Furniture, Fixtures, and Equipment	5-10 years

I. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

J. 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.

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 all employees who have ten or more years of service with the Educational Service Center.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure 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 who have accumulated unpaid leave are paid.

K. Accrued Liabilities and Long-Term Obligations

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

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

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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 expenditure for specified purposes.

The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

N. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2004, these funds included the Reading Mentoring, Reading A-Z, Psych Intern, Host, Title VI-B, Title III, and Preschool special revenue funds.

O. Interfund Transactions

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

Q. 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.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Change 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 include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, 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.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the Educational Service Center's financial statements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the Educational Service Center uses for its legally adopted budget when significant budgetary perspective differences result in the Educational Service Center not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the presentation of the Educational Service Center's budgetary financial statements 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.

B. Restatement of Fund Balance

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the Educational Service Center as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	\$ 3,349,064	\$ 390,306	\$ 3,739,370
GASB Interpretation No. 6 Adjustment:			
Compensated Absences Payable	<u>52,137</u>	<u>7,982</u>	<u>60,119</u>
Adjusted Fund Balance	<u>\$ 3,401,201</u>	<u>\$ 398,288</u>	<u>3,799,489</u>
GASB Statement No. 34 Adjustments:			
Intergovernmental Receivable			96,289
Accrued Interest Receivable			17,220
Capital Assets			226,200
Intergovernmental Payable			(93,518)
Compensated Absences Payable			<u>(496,863)</u>
Governmental Activities Net Assets at June 30, 2003			<u>\$ 3,548,817</u>

NOTE 4 - ACCOUNTABILITY

At June 30, 2004, the Public School; Prevention, Retention, and Contingency; and Safe and Drug Free special revenue funds had deficit fund balances of \$24, \$1,231, and \$50, respectively, resulting from adjustments for accrued liabilities. 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 (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Changes in Fund Balance	
GAAP Basis	\$ (1,788,022)
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2003, Received in Cash FY 2004	128,175
Accrued FY 2004, Not Yet Received in Cash	(318,065)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(912,695)
Accrued FY 2004, Not Yet Paid in Cash	1,215,049
Unrecorded Cash Activity 2003	582
Unrecorded Cash Activity 2004	16
Prepaid Items	(10,163)
Advances In	3,000
Advances Out	(88,373)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(39,471)
Budget Basis	\$ (1,809,967)

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 Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the 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 or deposit 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.

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

1. United States Treasury bills, bonds, notes, 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;

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

2. Bonds, notes, debentures, or any other obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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.

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.

At fiscal year end, the School District had \$85 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$4,902,253 and the bank balance was \$5,087,869. Of the bank balance, \$1,381,927 was covered by federal depository insurance and \$3,705,942 was uninsured and uncollateralized. Although 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 FDIC.

The Educational Service Center's investments are 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 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

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

which the 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 investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Fair Value</u>
Federal Home Loan Bank Bonds	<u>\$ 198,287</u>	\$ 198,287
STAR Ohio		<u>52,962</u>
<i>Totals</i>		<u>\$ 251,249</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,153,587	\$ -
Cash on Hand	(85)	-
Investments:		
Federal Home Loan Bank Bonds	(198,287)	198,287
STAR Ohio	<u>(52,962)</u>	<u>52,962</u>
GASB Statement No. 3	<u>\$ 4,902,253</u>	<u>\$ 251,249</u>

NOTE 7 - STATE 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 school districts based on each school district's total student count. The State 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 the school districts agree to the services and the apportionment of the costs.

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$37.00 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Education Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

The Educational Service Center may contract with local, city, exempted village, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education 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, accrued interest, intergovernmental, and interfund receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund	
Tuition	\$ 179,537
Ohio Department of MRDD	265,912
Miscellaneous	<u>6,623</u>
<i>Total General Fund</i>	<u>452,072</u>
Other Governmental Funds	
Community Center	28,070
Tobacco Use Prevention and Control Foundation	4,740
Alternative School	1,725
Parent Project	8,519
Prevention, Retention, and Contingency	65,463
Title III	1,958
21st Century	47,450
<i>Total Other Governmental Funds</i>	<u>157,925</u>
<i>Total Intergovernmental Receivables</i>	<u>\$ 609,997</u>

NOTE 9 - CAPITAL ASSETS

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

	<u>Balance at</u> <u>6/30/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>6/30/2004</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ -	\$ 112,500	\$ -	\$ 112,500
Construction in Progress	-	<u>107,773</u>	-	<u>107,773</u>
<i>Total Nondepreciable Capital Assets</i>	<u>-</u>	<u>220,273</u>	<u>-</u>	<u>220,273</u>

(Continued)

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

	Balance at 6/30/2003	Additions	Reductions	Balance at 6/30/2004
Depreciable Capital Assets				
Furniture, Fixtures, and Equipment	866,240	46,019	(48,740)	863,519
Less Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(640,040)	(115,613)	48,127	(707,526)
<i>Depreciable Capital Assets, Net</i>	<u>226,200</u>	<u>(69,594)</u>	<u>(613)</u>	<u>155,993</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 226,200</u>	<u>\$ 150,679</u>	<u>\$ (613)</u>	<u>\$ 376,266</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$ 9,351
Special		15,392
Support Services:		
Pupils		25,696
Instructional Staff		9,669
Administration		51,148
Fiscal		759
Central		3,598
<i>Total Depreciation Expense</i>		<u>\$ 115,613</u>

NOTE 10 - INTERFUND ASSETS/LIABILITIES

At June 30, 2004, the General Fund had an interfund receivable, in the amount of \$90,768, from other governmental funds; \$88,373 to provide cash flow resources until the receipt of grant monies; and \$2,395 until adequate charges are received.

NOTE 11 - 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 for the following insurance coverage.

Coverage provided by Ohio School Plan:

General Liability	
Per Occurrence	\$ 1,000,000
Aggregate	3,000,000
Excess Liability	2,000,000
Comprehensive Auto Liability	2,000,000
Uninsured Motorists	1,000,000

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Coverage provided by Cincinnati Insurance:

Commercial Property (\$250 deductible)	\$ 469,563
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2004, the Educational Service Center participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Wood County Insurance Consortium (WCIC), a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. The Educational Service Center pays monthly premiums to the WCIC for employee medical and dental benefits. WCIC is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the WCIC, a participant is responsible for the payment of all liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2004, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

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 fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of 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 DCP 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 salary and the Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Educational Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$626,739, \$620,891, and \$435,314, respectively; 99 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$20,251 made by the Educational Service Center and \$36,724 made by plan members.

B. School Employees Retirement System

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 was \$248,225, \$193,487, and \$128,401, respectively; 100 percent has been contributed for all three fiscal years.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

C. Social Security System

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified 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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount was \$49,768.

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

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

For 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 to fund health care benefits, including the surcharge, was \$175,942 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at 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.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, superintendents, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-seven days for all employees.

B. Health Care Benefits

The Educational Service Center offers medical and dental benefits to full-time employees through the Wood County Insurance Consortium (WCIC). The Educational Service Center also offers life insurance to all employees through the Travelers Insurance Company.

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/2003	Additions	Reductions	Balance at 6/30/2004	Amounts Due Within One Year
Governmental Activities					
Compensated Absences	<u>\$ 496,863</u>	<u>\$ 66,427</u>	<u>\$ 37,202</u>	<u>\$ 526,088</u>	<u>\$ 53,205</u>

Compensated absences will be paid from the General Fund and the Community Center; Alcohol, Tobacco, and Other Drug Prevention; Private Industry Council; Prevention, Retention, and Contingency; and 21st Century special revenue funds.

NOTE 16 - INTERFUND TRANSFERS

During fiscal year 2004, the General Fund made transfers to the Building capital projects fund and Other Governmental Funds, in the amount of \$2,321,556 and \$7,052, respectively, to subsidize operations of those funds.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Penta County Joint Vocational School

The Penta County Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of eleven members from the participating School Districts' elected Boards. Board members

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

are appointed for a term of two years to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Educational Service Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Educational Service Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta County Joint Vocational School, Carrie Herringshaw, who serves as Treasurer, 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

B. Northwest Ohio Computer Association

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 educational entities.

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2004, the Educational Service Center paid \$2,500 to NWOCA for various services. Financial information can be obtained from Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

NOTE 18 - INSURANCE POOLS

A. Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. Wood County Insurance Consortium

The Wood County Insurance Consortium (WCIC) is a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and the Educational Service Center. WCIC is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the WCIC.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the WCIC is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Sharon Gillespie, Medical Mutual of Ohio, P.O. Box 943, Toledo, Ohio 43656.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

NOTE 19 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

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

NOTE 20 - 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

There are currently no matters in litigation with the Educational Service Center as defendant.

NOTE 21 - SUBSEQUENT EVENT

On July 29, 2004, the Educational Service Center (lessee) entered into a lease-purchase agreement with the Columbus Regional Airport Authority (lessor), related to the Ohio Association of School Business Officials (OASBO) Expanded Asset Pooled Financing Program (lease) for acquisition/construction of new office facilities. A variable monthly rate of interest of 1.64 - 3 percent was charged until the lease was paid off in March 2005.

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WOOD COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

PROGRAM	CFDA Number	Pass Through Number	Federal Receipts	Federal Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE				
<i>Passed through the Ohio Department of Education</i>				
National School Lunch Program	10.555	-	\$ 8,297	\$ 8,297
Total United States Department of Agriculture			8,297	8,297
UNITED STATES DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education</i>				
<u>Special Education Cluster:</u>				
Special Education Grants to States	84.027	050666-6BEC-2003-P	23,000	23,000
		050666-6BPM-2004-P	25,000	19,903
		050666-6BPM-2003-P	-	3,408
		050666-6BSF-2004	927,439	926,522
<i>Total Special Education Grants to States</i>			<u>975,439</u>	<u>972,833</u>
Special Education Preschool Grants	84.173	050666-PGS1-2003-P	(2,777)	6,450
		050666-PGS1-2004	82,888	72,860
<i>Total Special Education Preschool Grants</i>			<u>80,111</u>	<u>79,310</u>
<i>Total Special Education Cluster</i>			<u>1,055,550</u>	<u>1,052,143</u>
21st Century Community Learning Center	84.287	050666-T1S1-2003	4,359	37,947
		050666-T1S1-2004	399,833	428,471
<i>Total 21st Century Community Learning Center</i>			<u>404,192</u>	<u>466,418</u>
Title 1 Grants to Local Education Agencies	84.010	050666-C1SD-2004	72,857	72,857
Title IIA Improving Teacher Quality State Grants	84.367	050666-TRS1-2004	52,600	34,362
Safe and Drug Free Schools and Communities- National Program	84.184C	050666-T4S1-2003	(474)	770
		050666-T4S1-2004-P	11,592	11,592
		050666-T4S1-2004	9,893	9,893
<i>Total Safe and Drug Free Schools and Communities</i>			<u>21,011</u>	<u>22,255</u>
English Language Acquisition Grants	84.365	050666-T3S1-2004	11,183	12,831
Total United States Department of Education			1,617,393	1,660,866
UNITED STATES DEPARTMENT OF JUSTICE				
<i>Pass-through Ohio Department of Education:</i>				
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	-	13,277	16,005
			10,520	1,000
Total U.S. Department of Justice			23,797	17,005
Total Ohio Department of Education			1,649,487	1,686,168

(Continued)

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004
(Continued)

PROGRAM	CFDA Number	Pass Through Number	Federal Receipts	Federal Disbursements
UNITED STATES DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Job and Family Services</i>				
<i>Passed Through the Wood County Department of Job and Family Services</i>				
Workforce Investment Act- Youth Activities	17.259	-	(269)	20,194
		-	<u>92,324</u>	<u>92,324</u>
Total United States Department of Labor			<u>92,055</u>	<u>112,518</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities and then Through the Wood County Department of Mental Retardation and Developmental Disabilities:</i>				
Medicaid Reimbursement	93.778	-	<u>241,481</u>	<u>241,481</u>
<i>Passed Through the Wood County Department of Job and Family Services</i>				
Block Grant for Prevention and Treatment of Substance Abuse	93.959	-	<u>8,500</u>	<u>8,500</u>
Total United States Department of Health and Human Services			<u>249,981</u>	<u>249,981</u>
TOTAL - ALL FEDERAL ASSISTANCE			<u>\$ 1,991,523</u>	<u>\$ 2,048,667</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the ESC'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 ESC contribute non-Federal funds (matching funds) to support the Federally-funded programs. The ESC has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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**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***

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

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 Wood County Educational Service Center (the ESC) as of and for the year ended June 30, 2004, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated May 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ESC's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the ESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Wood County Educational Service Center
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, 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

May 31, 2005



**Auditor of State
Betty Montgomery**

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

Wood County Educational Service Center
1867 North Research Drive
Bowling Green, Ohio 43402-8835

To the Board of Education:

Compliance

We have audited the compliance of Wood County Educational Service Center (the ESC) 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 identifies the ESC's major federal programs. The ESC'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 ESC'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 reasonably assure 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 ESC's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ESC's compliance with those requirements.

In our opinion, the Wood County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The ESC'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 ESC'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 when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, 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

May 31, 2005

WOOD COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Findings
OMB Circular A -133 § .505
Fiscal Year Ended June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	21 st Century Community Learning Center CFDA #84.287 Medicaid Reimbursement CFDA #93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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WOOD COUNTY EDUCATIONAL SERVICE CENTER

WOOD 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
JULY 12, 2005**