



**Auditor of State
Betty Montgomery**

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Mid-Ohio Educational Service Center
Richland County
1495 W. Longview Avenue
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2005, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected this information 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.

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

Betty Montgomery
Auditor of State

April 15, 2005

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$1,708,227 which represents a 20.22% increase from 2003.
- General revenues accounted for \$4,891,622 in revenue or 31.01% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,881,535 or 68.99% of total revenues of \$15,773,157.
- The ESC had \$14,064,930 in expenses related to governmental activities; \$10,881,535 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$4,891,622 were adequate to provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$13,946,995 in revenues and other financing sources and \$13,795,899 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance increased \$151,096 from \$7,992,882 to \$8,143,978.

Using these Basic Financial Statements

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Reporting the ESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the ESC's programs and services, including instruction, support services, operation and maintenance of plant, and pupil transportation. The ESC's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* account, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The ESC maintains only one type of proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC has one internal service fund that accounts for a self-insurance program which provides medical/surgical, dental and vision to employees. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the ESC's Fiduciary Responsibilities

The ESC maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the ESC's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-50 of this report.

The ESC as a Whole

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

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

	Net Assets
	Governmental Activities
	<u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 10,882,389
Capital assets, net	<u>1,476,341</u>
Total assets	<u>12,358,730</u>
<u>Liabilities</u>	
Current liabilities	1,315,968
Long-term liabilities	<u>889,217</u>
Total liabilities	<u>2,205,185</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	961,329
Restricted	202,356
Unrestricted	<u>8,989,860</u>
Total net assets	<u>\$ 10,153,545</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$10,153,545. Of this total, \$202,356 is restricted in use.

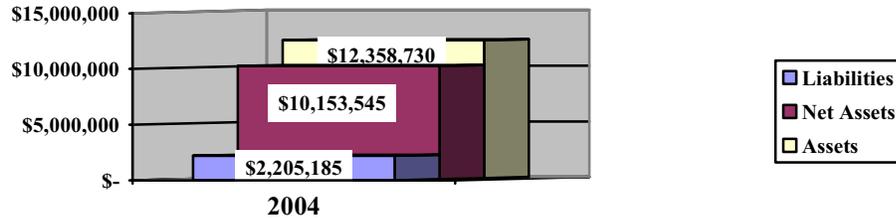
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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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At fiscal year-end, capital assets represented 11.95% of total assets. Capital assets include land, construction in progress, buildings and improvements, and furniture and equipment. Invested in capital assets, net of related debt to acquire the assets at June 30, 2004, was \$961,329. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the ESC's net assets, \$202,356, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$8,989,860 may be used to meet the ESC's ongoing obligations to the students and creditors.

Governmental Activities



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

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 9,264,826
Operating grants and contributions	1,616,709
General revenues:	
Grants and entitlements	4,690,235
Investment earnings	117,465
Other	83,922
	<hr/>
Total revenues	15,773,157

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 253,328
Special	3,429,681
Adult/continuing education	59,258
Support services:	
Pupil	2,986,634
Instructional staff	5,249,274
Board of education	68,467
Administration	906,884
Fiscal	421,291
Business	430,854
Operations and maintenance	32,779
Pupil transportation	4,710
Central	183,289
Operation of non-instructional services	6,870
Interest and fiscal charges	<u>31,611</u>
Total expenses	<u>14,064,930</u>
Increase in net assets	<u>\$ 1,708,227</u>

Governmental Activities

Net assets of the ESC's governmental activities increased by \$1,708,227. Total governmental expenses of \$14,064,930 were offset by program revenues of \$10,881,535 and general revenues of \$4,891,622. Program revenues supported 77.37% of the total governmental expenses.

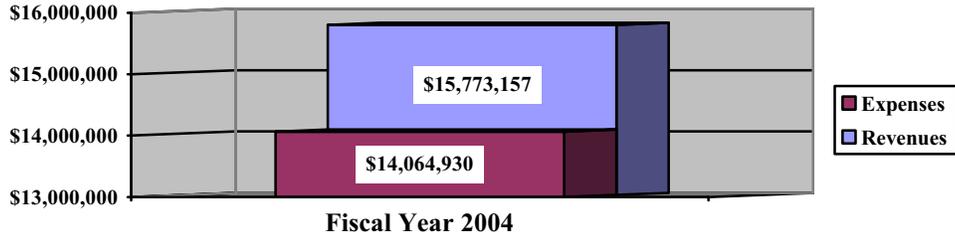
The largest expense of the ESC is for support services. Support service expenses totaled \$10,283,182 or 73.11% of total governmental expenses for fiscal 2004.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the ESC's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 253,328	\$ 10,038
Special	3,429,681	1,025,542
Adult/continuing education	59,258	(12,420)
Support services:		
Pupil	2,986,634	(352,475)
Instructional staff	5,249,274	853,033
Board of education	68,467	68,467
Administration	906,884	848,939
Fiscal	421,291	323,929
Business	430,854	166,357
Operations and maintenance	32,779	32,429
Pupil transportation	4,710	(828)
Central	183,289	181,903
Operations of non-instructional services	6,870	6,870
Interest and fiscal charges	31,611	31,611
Total	<u>\$ 14,064,930</u>	<u>\$ 3,183,395</u>

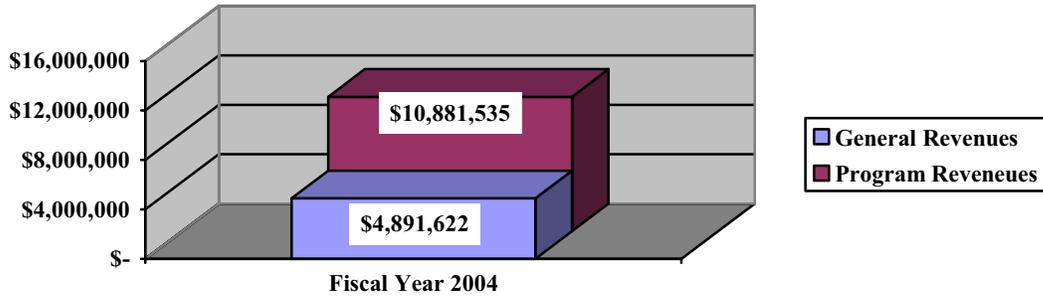
The dependence upon general revenues for governmental activities is apparent, 27.34% of instruction activities are supported through general revenues. For all governmental activities, general revenue support is 22.63%. The ESC's contract services as a whole are by far the primary support for ESC's students.

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RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the ESC's governmental activities revenue for fiscal year 2004.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$8,259,769, which is higher than last year's restated total of \$8,232,881. The June 30, 2003 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)	Percentage Change
General	\$ 8,143,978	\$ 7,992,882	\$ 151,096	1.89%
Other Governmental	<u>115,791</u>	<u>239,999</u>	<u>(124,208)</u>	(51.75%)
Total	<u>\$ 8,259,769</u>	<u>\$ 8,232,881</u>	<u>\$ 26,888</u>	0.33%

General Fund

The ESC's general fund balance increased by \$151,096 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A to the basic financial statements). The increase in fund balance can be attributed to several items related to decreasing expenditures and increased revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Tuition	\$ 101,732	\$ 87,782	\$ 13,950	15.89%
Contract services	8,456,044	7,040,160	1,415,884	20.11%
Earnings on investments	97,514	154,228	(56,714)	(36.77)%
Intergovernmental	4,698,171	3,936,341	761,830	19.35%
Other revenues	<u>83,922</u>	<u>61,402</u>	<u>22,520</u>	36.68%
 Total	 <u>\$ 13,437,383</u>	 <u>\$ 11,279,913</u>	 <u>\$ 2,157,470</u>	 19.13%
<u>Expenditures</u>				
Instruction	\$ 3,435,637	\$ 2,925,024	\$ 510,613	17.46%
Support services	9,004,343	7,740,487	1,263,856	16.32%
Non-instructional services	6,870	5,152	1,718	33.35%
Extracurricular activities	827,405	-	827,405	100.00%
Capital outlay	375,435	24,700	350,735	1419.97%
Debt service	<u>101,412</u>	<u>133,451</u>	<u>(32,039)</u>	(24.01)%
 Total	 <u>\$ 13,751,102</u>	 <u>\$ 10,828,814</u>	 <u>\$ 2,922,288</u>	 26.99%

The increase in various revenues is primarily due to more services provided by the ESC to districts. The decrease in earnings or investments is due to the reduction of interest rates by the Federal Reserve. Increases in expenditures are primarily due to increases in staff to provide more services, in addition to increases in the cost of benefits. The increase in capital outlay is due to new copier leases.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the ESC made no amendments to estimated revenues of the general fund. For the general fund, original and final budgeted revenues and other financing sources were \$9,030,874. Actual revenues and other financing sources for fiscal 2004 was \$13,279,995. This represents a \$4,249,121 increase over final budgeted revenues. The increase is primarily due to an increase in services provided by the ESC.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$16,751,579 and final appropriations were \$16,991,173. The actual budget basis expenditures for fiscal year 2004 totaled \$13,255,689, which is \$3,735,484 lower than the final budget appropriations mainly due to more budgeted for wages and benefits than actual expenditures.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the ESC had \$1,476,341 invested in land, construction in progress, buildings and improvements and furniture and equipment. See Note 7 to the basic financial statements for additional information. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 644,250	\$ -
Construction in progress	77,405	-
Building and improvements	104,692	-
Furniture and equipment	649,994	502,571
 Total	 \$ 1,476,341	 \$ 502,571

The overall increase in capital assets of \$973,770 is due to capital outlays of \$1,278,152 exceeding depreciation expense of \$184,423 in the fiscal year. \$827,405 of the increase in capital outlay is a result of the ESC purchasing land and a building and they are currently remodeling the building.

Debt Administration

At June 30, 2004, the ESC had \$515,012 in capital lease obligations outstanding. Of this total, \$97,553 is due within one year and \$417,459 is due in more than one year. See Note 8 to the basic financial statements for additional information. The following table summarizes the capital lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental	Governmental
	Activities	Activities
	2004	2003
Capital lease obligations	\$ 515,012	\$ 323,395
 Total	 \$ 515,012	 \$ 323,395

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Current Financial Related Activities

The ESC continues to operate on strong financial ground relying on contracts with area agencies and local, city and exempted village school districts in the counties of Richland, Morrow and Crawford, as well as state foundation revenue and grants. The future financial stability of the ESC is not without concerns in light of the new biennium budget proposal that does not appear to include any increases in the per pupil amounts for ESCs.

Potential loss of Medicaid funds is another concern of the ESC. With current rules governing this reimbursement set to expire June 30, 2005; the ESC would suffer significant financial harm should this program not be continued.

Under state law, County Commissioners are no longer required to provide ESCs rent-free space. In light of this and in a continuing effort to control costs, in 2004 the ESC purchased a facility to house the following: the ESC offices, preschool classrooms and related space, SERRC offices, print shop space, media center office, North Central Regional School Improvement Team offices and related space, and a large conference center facility. Renovation of the facility began in December 2004 with a project completion date set for late summer/early fall 2005.

As with all ESCs, the talk of regional delivery of services for education in Ohio is a concern of the ESC. At this time, we are hopeful the outcome will be favorable to ESCs and do not foresee any major changes to operations in the immediate future. While the regional delivery would not impact the core services delivered to clients, it could significantly reduce the administrative/fiscal fees currently being collected.

The ESC will continue to be responsive to client needs with the ultimate goal of providing the necessary resources to meet student needs. The ESC prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the ESC to operate efficiently and to meet the financial challenges of the future.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizens, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mrs. Lorraine Earnest, Treasurer, Mid-Ohio Educational Service Center, 1495 W. Longview Avenue, Suite 202, Mansfield, Ohio 44906.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 8,292,364
Cash with fiscal agent	97,493
Receivables:	
Accounts.	136,231
Intergovernmental	2,289,724
Accrued interest	30,592
Prepayments	24,826
Materials and supplies inventory	11,159
Capital assets:	
Land and construction-in-progress.	721,655
Depreciable capital assets, net	754,686
Capital assets, net	<u>1,476,341</u>
 Total assets.	 <u>12,358,730</u>
 Liabilities:	
Accounts payable.	164,966
Accrued wages and benefits	832,376
Pension obligation payable.	136,138
Intergovernmental payable	82,886
Claims payable	99,602
Long-term liabilities:	
Due within one year.	203,366
Due in more than one year	685,851
 Total liabilities	 <u>2,205,185</u>
 Net Assets:	
Invested in capital assets, net of related debt.	961,329
Restricted for:	
Other purposes	202,356
Unrestricted.	<u>8,989,860</u>
 Total net assets	 <u>\$ 10,153,545</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 253,328	\$ 163,040	\$ 80,250	\$ (10,038)
Special	3,429,681	2,328,213	75,926	(1,025,542)
Adult/continuing education.	59,258	17,896	53,782	12,420
Support services:				
Pupil.	2,986,634	3,038,792	300,317	352,475
Instructional staff	5,249,274	3,445,474	950,767	(853,033)
Board of education	68,467	-	-	(68,467)
Administration.	906,884	13,792	44,153	(848,939)
Fiscal.	421,291	8,488	88,874	(323,929)
Business.	430,854	249,044	15,453	(166,357)
Operations and maintenance	32,779	87	263	(32,429)
Pupil transportation.	4,710	-	5,538	828
Central	183,289	-	1,386	(181,903)
Operation of non-instructional services	6,870	-	-	(6,870)
Interest and fiscal charges	31,611	-	-	(31,611)
Total governmental activities	\$ 14,064,930	\$ 9,264,826	\$ 1,616,709	(3,183,395)

General Revenues:

Grants and entitlements not restricted to specific programs.	4,690,235
Investment earnings	117,465
Miscellaneous	83,922
Total general revenues.	4,891,622
Change in net assets	1,708,227
Net assets at beginning of year (restated).	8,445,318
Net assets at end of year.	\$ 10,153,545

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 7,974,678	\$ 317,686	\$ 8,292,364
Receivables:			
Accounts	19,685	83	19,768
Intergovernmental	2,131,608	156,220	2,287,828
Accrued interest	30,539	-	30,539
Interfund receivable	55,358	-	55,358
Prepayments	24,059	767	24,826
Materials and supplies inventory	11,159	-	11,159
Total assets	\$ 10,247,086	\$ 474,756	\$ 10,721,842
Liabilities:			
Accounts payable	\$ 2,305	\$ 162,661	\$ 164,966
Accrued wages and benefits	809,047	23,329	832,376
Compensated absences payable	40,549	-	40,549
Pension obligation payable.	92,952	2,856	95,808
Intergovernmental payable.	75,193	7,693	82,886
Interfund payable.	-	55,358	55,358
Deferred revenue.	1,083,062	107,068	1,190,130
Total liabilities	2,103,108	358,965	2,462,073
Fund Balances:			
Reserved for encumbrances	6,936	27,664	34,600
Reserved for materials and supplies inventory.	11,159	-	11,159
Reserved for prepayments	24,059	767	24,826
Unreserved, undesignated, reported in:			
General fund	8,101,824	-	8,101,824
Special revenue funds.	-	87,360	87,360
Total fund balances	8,143,978	115,791	8,259,769
Total liabilities and fund balances	\$ 10,247,086	\$ 474,756	\$ 10,721,842

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Total governmental fund balances		\$	8,259,769
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,476,341
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract services	\$	1,011,527	
Tuition revenue		42,800	
Intergovernmental revenue		107,068	
Accrued interest		<u>28,735</u>	
Total			1,190,130
An internal service fund is used by management to charge the costs of medical/dental/life insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			116,303
Long-term liabilities, including capital lease obligations, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(333,656)	
Pension obligation payable		(40,330)	
Capital lease obligation payable		<u>(515,012)</u>	
Total			<u>(888,998)</u>
Net assets of governmental activities		\$	<u><u>10,153,545</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition	\$ 101,732	\$ 200	\$ 101,932
Contract services	8,456,044	-	8,456,044
Earnings on investments	97,514	-	97,514
Other local revenues	83,922	164,246	248,168
Intergovernmental - Intermediate	545	63,933	64,478
Intergovernmental - State	4,134,697	1,049,728	5,184,425
Intergovernmental - Federal	562,929	403,624	966,553
Total revenue	13,437,383	1,681,731	15,119,114
Expenditures:			
Current:			
Instruction:			
Regular	42,150	227,011	269,161
Special	3,393,487	71,981	3,465,468
Adult/continuing education	-	58,934	58,934
Support services:			
Pupil	2,790,307	283,898	3,074,205
Instructional staff	4,278,458	1,054,078	5,332,536
Board of education	68,467	-	68,467
Administration	875,034	47,497	922,531
Fiscal	350,984	88,556	439,540
Business	429,544	13,500	443,044
Operations and maintenance	27,395	288	27,683
Pupil transportation	-	3,993	3,993
Central	184,154	1,000	185,154
Operation of non-instructional services	6,870	-	6,870
Extracurricular activities	827,405	-	827,405
Capital outlay	375,435	-	375,435
Debt service:			
Principal retirement	69,801	-	69,801
Interest and fiscal charges	31,611	-	31,611
Total expenditures	13,751,102	1,850,736	15,601,838
Excess of revenues under expenditures	(313,719)	(169,005)	(482,724)
Other financing sources (uses):			
Transfers in	-	44,797	44,797
Transfers (out)	(44,797)	-	(44,797)
Proceeds of capital lease transaction	509,612	-	509,612
Total other financing sources (uses)	464,815	44,797	509,612
Net change in fund balances	151,096	(124,208)	26,888
Fund balances at beginning of year (restated)			
	7,992,882	239,999	8,232,881
Fund balances at end of year	\$ 8,143,978	\$ 115,791	\$ 8,259,769

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	26,888
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,278,152) exceeds depreciation expense (\$185,481) in the current period.		1,092,671
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(118,901)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		653,669
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		69,801
Proceeds of capital lease transaction are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(509,612)
Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the liability on the statement of net assets.		248,094
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(35,951)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities, including \$374 in interest revenue.		281,568
		281,568
Change in net assets of governmental activities	\$	1,708,227
		1,708,227

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Tuition	\$ 95,233	\$ 95,233	\$ 107,271	\$ 12,038
Contract services	6,712,640	6,712,640	8,383,103	1,670,463
Earnings on investments	150,000	150,000	118,793	(31,207)
Other local revenues	32,157	32,157	67,078	34,921
Intergovernmental - Intermediate	275	275	275	-
Intergovernmental - State	1,230,206	1,230,206	3,932,241	2,702,035
Intergovernmental - Federal	686,936	686,936	531,449	(155,487)
Total revenue	<u>8,907,447</u>	<u>8,907,447</u>	<u>13,140,210</u>	<u>4,232,763</u>
Expenditures:				
Current:				
Instruction:				
Regular	55,258	56,048	43,726	12,322
Special	4,201,867	4,261,966	3,324,979	936,987
Support services:				
Pupil	3,458,990	3,508,463	2,737,133	771,330
Instructional staff	5,399,391	5,476,617	4,272,591	1,204,026
Board of education	90,961	92,262	71,978	20,284
Administration	1,099,704	1,115,433	870,207	245,226
Fiscal	425,345	431,429	336,580	94,849
Business	484,854	491,789	383,670	108,119
Operations and maintenance	45,718	46,372	36,177	10,195
Central	235,219	238,583	186,131	52,452
Operation of non-instructional services	8,682	8,806	6,870	1,936
Facilities acquisition and construction	1,045,616	1,060,571	827,406	233,165
Total expenditures	<u>16,551,605</u>	<u>16,788,339</u>	<u>13,097,448</u>	<u>3,690,891</u>
Excess of revenues over (under) expenditures	<u>(7,644,158)</u>	<u>(7,880,892)</u>	<u>42,762</u>	<u>7,923,654</u>
Other financing sources (uses):				
Refund of prior year expenditure	208	208	1,293	1,085
Transfers in	-	-	14,683	14,683
Transfers (out)	(75,168)	(76,243)	(59,481)	16,762
Advances in	123,219	123,219	123,809	590
Advances (out)	(124,806)	(126,591)	(98,760)	27,831
Total other financing sources (uses)	<u>(76,547)</u>	<u>(79,407)</u>	<u>(18,456)</u>	<u>60,951</u>
Net change in fund balance	(7,720,705)	(7,960,299)	24,306	7,984,605
Fund balance at beginning of year (restated).	7,889,305	7,889,305	7,889,305	-
Prior year encumbrances appropriated	70,388	70,388	70,388	-
Fund balance at end of year	<u>\$ 238,988</u>	<u>\$ (606)</u>	<u>\$ 7,983,999</u>	<u>\$ 7,984,605</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Cash with fiscal agent	\$ 97,493
Receivables:	
Accounts	116,463
Accrued interest	53
Intergovernmental	1,896
Total current assets	215,905
Liabilities:	
Current liabilities:	
Claims payable	99,602
Total current liabilities	99,602
Net assets:	
Unrestricted	116,303
Total net assets.	\$ 116,303

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Sales/charges for services	\$ 1,499,205
Total operating revenues	<u>1,499,205</u>
Operating expenses:	
Purchased services.	293,946
Claims	<u>924,065</u>
Total operating expenses	<u>1,218,011</u>
Operating income	281,194
Nonoperating revenues:	
Interest revenue	<u>374</u>
Total nonoperating revenues	<u>374</u>
Change in net assets.	281,568
Net assets (deficit) at beginning of year (restated)	
	<u>(165,265)</u>
Net assets at end of year	<u><u>\$ 116,303</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services	\$ 1,463,073
Cash payments for purchased services.	(395,602)
Cash payments for claims	<u>(939,214)</u>
Net cash provided by operating activities	<u>128,257</u>
Cash flows from noncapital financing activities:	
Cash used in repayment of interfund loans.	<u>(31,085)</u>
Net cash used in noncapital financing activities.	<u>(31,085)</u>
Cash flows from investing activities:	
Interest received	<u>321</u>
Net cash provided by investing activities	<u>321</u>
Net increase in cash and cash equivalents	97,493
Cash and cash equivalents at beginning of year . . .	<u>-</u>
Cash and cash equivalents at end of year.	<u><u>\$ 97,493</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 281,194
Changes in assets and liabilities:	
Increase in accounts receivable	(35,127)
Increase in due from other governments.	(1,896)
Decrease in intergovernmental payable	(100,765)
Decrease in claims payable.	<u>(15,149)</u>
Net cash provided by operating activities	<u><u>\$ 128,257</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 167,109
Receivables:	
Accounts	773
Due from other governments	50,095
Prepays.	891
Total assets	\$ 218,868
Liabilities:	
Accounts payable.	\$ 2,562
Intergovernmental payable	2,500
Due to students	213,806
Total liabilities	\$ 218,868

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996. Educational Service Centers were formed as a result of Senate Bill 9 as amended by Am. Sub. H.B. 117.

The ESC is located at 1495 W. Longview Ave., Suite 202, Mansfield, in offices provided by the Richland County Commissioners, as provided by Ohio Revised Code 3319.19. The Governing Board consists of seven members elected by the voters of each County. This Governing Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 148 non-certificated employees and 156 certificated (including administrative) employees to provide services to approximately 34,453 students throughout Crawford, Morrow, and Richland counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the ESC have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The ESC also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The ESC's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the ESC are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general operations, food service, preschool and student related activities of the ESC.

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 24 school districts, 1 county educational service center and a career center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have any equity interest in the COG. Financial information can be obtained from Jerry Payne, Treasurer of the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Business Advisory Councils of Crawford, Morrow, and Richland Counties

The ESC shall appoint a Business Advisory Council (the "Councils") in accordance with Ohio Revised Code, Section 3313.174. The purpose of the Councils shall be to provide insight, generate suggestions, and promote a positive relationship between the ESC and the communities it serves. The theme of the relationship is to provide an appropriate and adequate curriculum, within the ESC's financial means, in order that conscientious students may enter the work force with the knowledge, skills and attitudes that are at a level which makes initial employment feasible and additional training both productive and economical.

The Councils shall be composed of an optional number of members as determined by the ESC Superintendent. The membership may be selected from the fields of commercial, industrial, service, agricultural and governmental agencies. Consideration may also be given to one citizen representative from each of the local districts. Each local superintendent may also serve as an "ex officio" member. The ESC Superintendent, or his designee, shall serve as the chairman of the council.

The Superintendent of the ESC shall develop administrative guidelines which will ensure that the time and efforts of the Councils and those of the professional staff are utilized properly to accomplish these educational outcomes and to provide for a continued, strong working relationship between the school community, the Councils, and the larger community of employers.

The ESC has no ongoing financial interest or financial responsibility to the Councils.

Pioneer Career and Technology Center

The Pioneer Career and Technology Center, a Career Center, is a distinct political subdivision of the State of Ohio, operated under the direction of an eleven member Board of Education, which consists of one representative from each of the participating school district's elected board. Pioneer possesses its own budgeting and taxing authority. Financial information is available from Jerry Payne, Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Center.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Tri-Rivers Career Center

The Tri Rivers Career Center , a Career Center, is a district political subdivision of the State of Ohio. The Center is operated under the direction of a Board of Education, which consists of one representative from each of the participating school district's elected board, and one representative from the Delaware-Union Educational Service Center. The Center possesses its own budgeting and taxing authority. Financial information is available from Terril Martin, Treasurer of the Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the Center.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. 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 participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. See Note 10 for further information pertaining to this insurance purchasing pool.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the ESC are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no enterprise funds. The following is a description of the ESC's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the ESC accounts for a self-insurance program which provides medical/surgical, dental and vision benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds account for various resources held for other organizations and individuals including the Crawford County Family and Children First Council, Solid Waste Management, and a Media Center Grant.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the ESC finances and meets the cash flow needs of its proprietary activity.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds and agency funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

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

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

E. Budgets

An Educational Service Center is required by state Statute, Ohio Revised Code Section 3317.11, to submit an annual budget of operating expenses to the State Board of Education for approval.

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

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$14.34 for local school districts and \$6.50 for city school districts. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$40.52. This amount is provided from State Resources.

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

APPROPRIATIONS

The annual appropriation resolution is legally enacted by the ESC's Governing Board at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the ESC may pass a temporary appropriation measure to meet the ordinary expenses of the ESC. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the ESC's Governing Board.

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2004.

Unencumbered appropriations revert to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the ESC is pooled in a central bank account. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements, nonnegotiable certificates of deposit and federal securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the governing board, investment earnings are assigned to the general fund and the internal service fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$97,514, which includes \$5,500 assigned from other funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported 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	Governmental Activities Estimated Lives
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years

I. Interfund Balances

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or older with at least 10 years of service or any age with 20 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the ESC, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Estimates

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the ESC has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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.

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

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

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

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

	General	Nonmajor	Total
Fund balance June 30, 2003	\$ 8,029,771	\$ 247,653	\$ 8,277,424
Fund reclassifications	(21,839)	(7,828)	(29,667)
Implementation of GASB Interpretation No. 6	(15,050)	174	(14,876)
Restated fund balance, June 30, 2003	\$ 7,992,882	\$ 239,999	\$ 8,232,881

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

	Total
Restated fund balance, June 30, 2003	\$ 8,232,881
GASB 34 adjustments:	
Long-term (deferred) assets	536,461
Capital assets	502,571
Pension obligation	(45,483)
Long-term liabilities	(615,847)
Internal service fund	(165,265)
Governmental activities net assets, June 30, 2003	\$ 8,445,318

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Business-Type Activities - Fund Reclassification - Certain funds previously reported as internal service funds are now reported in the general fund to properly reflect the intended purpose of the funds.

	Internal Service
Fund equity as previously reported	\$ (189,495)
Fund reclassification	24,230
Restated net assets as of July 1, 2003	\$ (165,265)

B. Deficit Fund Balances

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

	Deficit
<u>Nonmajor Funds</u>	
Alternative Education	\$ 664
Preschool	710
Miscellaneous Federal Grants	12,282
Alternative School	12,412

These funds complied with Ohio state law, which does not permit a cash basis deficit at fiscal year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash with Fiscal Agent: At June 30, 2004, the ESC had a cash balance with the Ohio Mid-Eastern Regional Education Service Agency of \$97,493. This amount has been reflected as cash with fiscal agent on the statement of net assets. The \$97,493 is part of the ESC's internal cash management pool and is included in "Deposits" below.

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

Deposits: At fiscal year-end, the carrying amount of the ESC's deposits was \$740,547 and the bank balance was \$1,450,076 (both balances include \$1,276,000 in nonnegotiable certificates of deposit). Of the bank balance:

1. \$1,394,615 was covered by federal depository insurance; and
2. \$55,461 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

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

Investments: The ESC's investments are required to be categorized below to give an indication of the level of custodial credit risk assumed by the ESC at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreement	\$ -	\$ 508,628	\$ 508,628	\$ 508,628
Federal agency securities	<u>2,827,259</u>	<u>-</u>	2,827,259	2,827,259
	<u>\$ 2,827,259</u>	<u>\$ 508,628</u>		
Investment in STAR Ohio			<u>4,480,532</u>	<u>4,480,532</u>
Total investments			<u>\$ 7,816,419</u>	<u>\$ 7,816,419</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 8,556,966	\$ -
Investments of the cash management pool:		
Repurchase agreement	(508,628)	508,628
Investment in STAR Ohio	(4,480,532)	4,480,532
Federal securities	<u>(2,827,259)</u>	<u>2,827,259</u>
GASB Statement No. 3	<u>\$ 740,547</u>	<u>\$ 7,816,419</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 55,358

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

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

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

Transfers from General Fund to:	<u>Amount</u>
Nonmajor Governmental Funds	\$ 44,797

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 6 - RECEIVABLES

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

Governmental Activities:

Accounts	\$	136,231
Accrued interest		30,592
Intergovernmental		<u>2,289,724</u>
Total		<u>\$ 2,456,547</u>

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

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors in the prior year and the implementation of GASB Statement No. 34 which requires depreciation of governmental Activities Capital Assets:

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities:			
Furniture and equipment	\$ 1,103,754	\$ (6,163)	\$ 1,097,591
Total capital assets, being depreciated	<u>1,103,754</u>	<u>(6,163)</u>	<u>1,097,591</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(595,020)</u>	<u>(595,020)</u>
Governmental activities capital assets, net	<u>\$ 1,103,754</u>	<u>\$ (601,183)</u>	<u>\$ 502,571</u>

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

NOTE 7 - CAPITAL ASSETS - (Continued)

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

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 644,250	\$ -	\$ 644,250
Construction-in-progress	-	77,405	-	77,405
Total capital assets, not being depreciated	-	721,655	-	721,655
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	-	105,750	-	105,750
Furniture and equipment	1,097,591	450,747	(297,548)	1,250,790
Total capital assets, being depreciated	1,097,591	556,497	(297,548)	1,356,540
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	-	(1,058)	-	(1,058)
Furniture and equipment	(595,020)	(184,423)	178,647	(600,796)
Total accumulated depreciation	(595,020)	(185,481)	178,647	(601,854)
Governmental activities capital assets, net	<u>\$ 502,571</u>	<u>\$ 1,092,671</u>	<u>\$ (118,901)</u>	<u>\$ 1,476,341</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 915
Special	15,276
Adult/Continuing Education	324

Support Services:

Pupil	3,374
Instructional staff	7,144
Administration	7,113
Fiscal	1,017
Business	144,505
Operations and maintenance	5,096
Central	717
Total depreciation expense	<u>\$ 185,481</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years and in the current year, the ESC has entered into capital leases for copiers. The terms of each lease agreement provide an option to purchase the copier. These leases meet the criteria of a capital lease as defined by Statement No. 13 of the FASB, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. New leases are accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined statement of revenues, expenditures and changes in fund balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the statement of net assets in an amount of \$517,008, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2004 fiscal year totaled \$69,801. This amount is reflected as debt service principal retirement in the general fund. In addition to the amount of principal retired the ESC also traded in leases with principal balances of \$248,094 which is included in the ESC's expenditures.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 132,838
2006	133,747
2007	126,400
2008	124,677
2009	<u>94,603</u>
Total minimum lease payments	612,265
Less amount representing interest	<u>(97,253)</u>
Total	<u>\$ 515,012</u>

The ESC does not have capitalized lease obligations after fiscal year 2009.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS

The balance of the ESC's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$32,317 from \$286,084 to \$318,401 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$43,957 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$11,640 from \$653,336 to \$641,696. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated			Balance	Amounts
	Balance			Outstanding	Due in
	Outstanding	Additions	Reductions	06/30/04	One Year
	<u>06/30/03</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:					
Compensated absences	\$ 318,401	\$ 139,410	\$ (83,606)	\$ 374,205	\$ 105,813
Capital lease obligation	<u>323,295</u>	<u>509,612</u>	<u>(317,895)</u>	<u>515,012</u>	<u>97,553</u>
Total long-term obligations, governmental activities	<u>\$ 641,696</u>	<u>\$ 649,022</u>	<u>\$ (401,501)</u>	<u>\$ 889,217</u>	<u>\$ 203,366</u>

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

Capital Lease Obligation: The capital lease obligation will be paid from the general fund and nonmajor governmental funds. See Note 8 for details.

NOTE 10 - RISK MANAGEMENT

A. Comprehensive Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured.

B. Health Benefits

The ESC has established a Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$75,000 for each health benefits claim. The plan is offered to school districts state-wide through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) in Steubenville, and administered by Gallagher Benefit Administrators. Through OME-RESA, the ESC purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 10 - RISK MANAGEMENT - (Continued)

All funds of the ESC participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). The ESC's independent third-party administrator has actuarially determined that \$99,602 is a good and sufficient provision for all unmatured claim obligations (including both reported but unpaid claims and incurred but not reported claims, as well as an allowance for claim settlement expenses on the estimated unpaid claims) as of June 30, 2004. This amount is non-discounted and is based upon historical claims experience.

The claims liability of \$99,602 reported in the Fund at June 30, 2004 is based on the provisions of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for claims be reported if information prior to the issuance of the basic financials indicates that it is probable that a liability has been incurred at the date of the basic financials and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount during the current and past fiscal year follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 114,751	\$ 924,065	\$ (939,214)	\$ 99,602
2003	198,537	691,586	(775,372)	114,751

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 12. As such, no funding provisions are required by the ESC.

C. Workers' Compensation Group Rating Plan

For fiscal year 2004, the ESC 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 ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$365,535, \$317,125, and \$239,858, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

B. State Teachers Retirement System

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute at an actuarially determined rate. The current ESC rate is 14 percent of annual covered payroll. A portion of the ESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$850,870, \$763,790, and \$685,073, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal 2004 were \$18,139 made by the ESC and \$24,357 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.20 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$60,776 during fiscal 2004.

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

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

The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$201,628 during the 2004 fiscal year.

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General Fund</u>
Budget basis	\$ 24,306
Net adjustment for revenue accruals	297,173
Net adjustment for expenditure accruals	(662,895)
Net adjustment for other sources/uses	483,271
Adjustment for encumbrances	<u>9,241</u>
GAAP basis	<u>\$ 151,096</u>

NOTE 14 - RELATED PARTY TRANSACTIONS

During fiscal 2004, the ESC spent a total of \$368,046 of grants on behalf of school districts in Crawford, Morrow and Richland Counties.

NOTE 15 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The ESC is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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

NOTE 16 – SUBSEQUENT EVENT

The ESC purchased a building at 890 West Fourth Street, Mansfield on March 31, 2004 at a cost of \$750,000 which will be the future site of the ESC's offices. The building is being renovated before being occupied. The renovation project is being done in three phases. Phase I construction began on November 29, 2004 with an estimated completion date of May 15, 2005 and a cost of \$753,699. Phase II construction began on March 14, 2005 with an estimated completion date of August 13, 2005 and a cost of \$2,955,226. Phase III is currently in the planning stage and is estimated to cost \$460,183. The entire project is expected to be completed without incurring debt.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

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

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA #	Pass-through Entity Number	Receipts	Expenditures
U.S. Department of Education				
<i>Passed Through the Ohio Department of Education:</i>				
Adult Education - State Grant Program	84.002	123521-ABS1-2004 123521-ABS1-2003	\$66,008	\$58,245 6,148
Total Adult Education - State Grant Program			<u>66,008</u>	<u>64,393</u>
Special Education Cluster:				
Special Education - Preschool Grants	84.173	123521-PGS1-2004 123521-PGS1-2003	50,963	50,963 2,555
Total Special Education - Preschool Grants			<u>50,963</u>	<u>53,518</u>
Vocational Education - Basic Grants to States	84.048	123521-20AQ-2003	11,550	
Safe and Drug-Free and Communities National Programs	84.184	123521-T4S1-2004	1,818	10,102
Comprehensive School Reform Demonstration	84.332	123521-RFMP-2002	14,209	14,209
Total U.S. Department of Education			144,548	142,222
U.S. Department of Health and Human Services				
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	N/A	374,807	374,807
<i>Passed through Richland County Dept of Jobs & Family Services: Passed through North Central State College:</i>				
Temporary Assistance for Needy Families	93.558		26,411	16,681
Total U.S. Department of Health and Human Services			401,218	391,488
U.S. Department of Agriculture				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	10.553	123521-05PU-2004	44,544	40,221
National School Lunch Program	10.555	123521-LLP4-2004	81,582	73,665
Total U.S. Department of Agriculture			126,126	113,886
U.S. Department of Labor				
<i>Passed through Ohio Dept of Job & Family Services: Passed through Richland County Department of Job & Family Services:</i>				
WIA Youth Activities	17.259		200,867	241,843
Total U.S. Department of Labor			200,867	241,843
Total			<u>\$872,759</u>	<u>\$889,439</u>

The accompanying notes to this schedule are an integral part of this schedule.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
1495 W. Longview Avenue
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Mid-Ohio Educational Service Center, Richland County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated April 15, 2005, in which we noted the Educational Service Center adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Educational Service Center's management in a separate letter dated April 15, 2005.

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www.auditor.state.oh.us

This report is intended solely for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 15, 2005



Auditor of State Betty Montgomery

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

Mid-Ohio Educational Service Center
Richland County
1495 W. Longview Avenue
Suite 202
Mansfield, Ohio 44906

To the Governing Board:

Compliance

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

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

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

Internal Control Over Compliance

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

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

This report is intended for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 15, 2005

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #93.778 – Medical Assistance Program (CAFS)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	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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MID OHIO EDUCATIONAL SERVICE CENTER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2005**