



**Auditor of State
Betty Montgomery**

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stark County Educational Service Center, Stark County, Ohio, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, each major fund, and the aggregate remaining fund information of the Stark County Educational Service Center, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Miscellaneous State Grants Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2005, on our consideration of the 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.

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.

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We conducted our audit to form opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it 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 4, 2005

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$77,056 which represents a 1.83% decrease from 2003.
- General revenues accounted for \$4,156,354 in revenue or 23.05% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$13,874,808 or 76.95% of total revenues of \$18,031,162.
- The ESC had \$18,108,218 in expenses related to governmental activities; only \$13,874,808 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$4,156,354 were not adequate to provide for these programs.
- The ESC has two major governmental funds, the general fund and miscellaneous state grants fund. The general fund had \$13,623,304 in revenues and \$13,754,926 in expenditures. During fiscal 2004, the general fund's fund balance decreased \$131,256 from \$354,820 to \$223,564.
- The miscellaneous state grants fund had \$1,746,688 in revenues and \$1,673,187 in expenditures. During fiscal 2004, the miscellaneous state grants fund's fund balance increased \$73,501 from \$594,785 to \$668,286.

Using these Basic Financial Statements (BFS)

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 and miscellaneous state grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, 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, and other operations.

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 funds 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 major governmental funds are the general fund and miscellaneous state grants fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* 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 15-20 of this report.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Reporting the ESC's Fiduciary Responsibilities

The ESC is the fiscal agent of the area A-site, Stark/Portage Area Computer Consortium ("SPARCC") and the Stark County Schools Council of Government. This activity is presented as fiduciary funds. The ESC also 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 separate Statements of Fiduciary Net Assets on page 21. The investment trust funds activities for fiscal 2004 are also reported in a separate Statement of Changes in Fiduciary Net Assets on page 22. 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 23-43 of this report.

The ESC as a Whole

The Statement of Net Assets provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities 2004	Governmental Activities 2003
<u>Assets</u>		
Current and other assets	\$ 4,633,924	\$ 4,956,106
Capital assets	<u>1,999,597</u>	<u>2,047,084</u>
Total assets	<u>6,633,521</u>	<u>7,003,190</u>
<u>Liabilities</u>		
Current liabilities	1,913,996	2,270,753
Long-term liabilities	<u>589,922</u>	<u>525,778</u>
Total liabilities	<u>2,503,918</u>	<u>2,796,531</u>
<u>Net Assets</u>		
Invested in capital assets	1,999,597	2,047,084
Restricted	781,496	1,089,361
Unrestricted	<u>1,348,510</u>	<u>1,070,214</u>
Total net assets	<u>\$ 4,129,603</u>	<u>\$ 4,206,659</u>

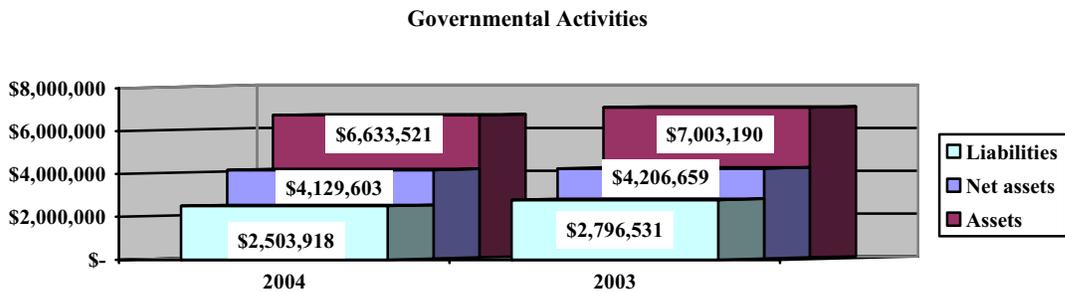
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$4,129,603. Of this total, \$1,348,510 is unrestricted in use.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

At year-end, capital assets represented 30.14% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets at June 30, 2004 were \$1,999,597. These capital assets are used to provide the ESC's services and are not available for future spending.

A portion of the ESC's net assets, \$781,496, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,348,510 may be used to meet the ESC's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 9,694,902	\$ 10,396,434
Operating grants and contributions	4,059,982	4,056,645
Capital grants and contributions	119,924	10,040
General revenues:		
Grants and entitlements	3,894,883	3,743,655
Investment earnings	102,142	170,974
Other	159,329	316,394
Total revenues	18,031,162	18,694,142

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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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>	Governmental Activities <u>2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 72,270	\$ 76,112
Special	4,804,775	4,315,729
Adult/continuing	39,030	-
Support services:		
Pupil	805,871	874,839
Instructional staff	8,133,257	7,917,561
Board of education	52,598	72,587
Administration	2,809,550	2,975,105
Fiscal	339,617	319,633
Business	706,405	674,195
Operations and maintenance	113,593	92,498
Pupil transportation	6,129	5,133
Central	220,414	499,690
Food service operations	4,709	-
Total expenses	<u>18,108,218</u>	<u>17,823,082</u>
Change in net assets	<u>\$ (77,056)</u>	<u>\$ 871,060</u>

Governmental Activities

Net assets of the ESC's governmental activities decreased \$77,056. Total governmental expenses of \$18,108,218 were offset by program revenues of \$13,874,808 and general revenues of \$4,156,354. Program revenues supported 76.62% of the total governmental expenses.

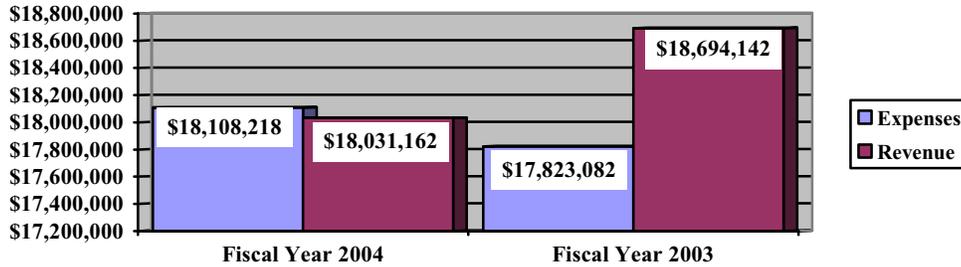
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 53.77% of total governmental revenue.

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

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2004 and 2003.

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, and other general revenues not restricted to a specific program.

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 72,270	\$ (11,358)	\$ 76,112	\$ 863
Special	4,804,775	885,950	4,315,729	590,271
Adult/continuing	39,030	20,100	-	-
Support services:				
Pupil	805,871	747,731	874,839	813,158
Instructional staff	8,133,257	901,917	7,917,561	274,754
Board of education	52,598	52,598	72,587	72,587
Administration	2,809,550	480,471	2,975,105	449,768
Fiscal	339,617	339,617	319,633	297,667
Business	706,405	706,405	674,195	674,195
Operations and maintenance	113,593	92,497	92,498	92,498
Pupil transportation	6,129	6,129	5,133	5,133
Central	220,414	18,253	499,690	89,069
Food service operations	4,709	(6,900)	-	-
Total	<u>\$ 18,108,218</u>	<u>\$ 4,233,410</u>	<u>\$ 17,823,082</u>	<u>\$ 3,359,963</u>

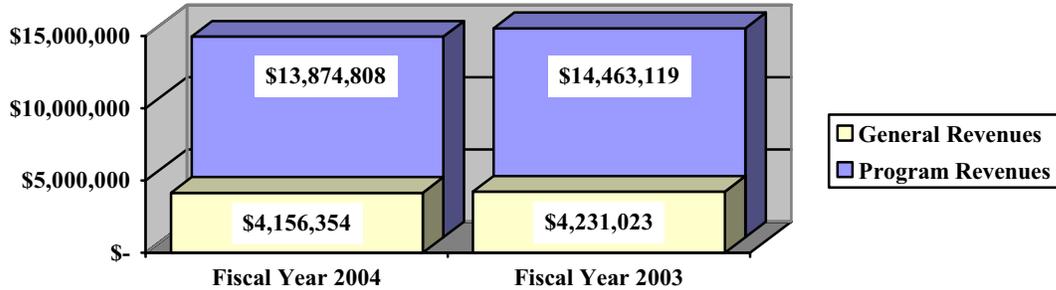
For all governmental activities, program revenue support is 76.62%. The primary support of the ESC is contracted fees for services provided to other districts.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the ESC's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,022,629, which is lower than last year's total of \$1,568,543. 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)
General	\$ 223,564	\$ 354,820	\$ (131,256)
Miscellaneous state grants	668,286	594,785	73,501
Other Governmental	<u>130,779</u>	<u>618,938</u>	<u>(488,159)</u>
Total	<u>\$ 1,022,629</u>	<u>\$ 1,568,543</u>	<u>\$ (545,914)</u>

General Fund

The ESC's general fund balance decreased \$223,564. The decrease in fund balance can be attributed to a decrease in tuition revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Tuition	\$ 4,125,238	\$ 4,766,361	(13.45) %
Services provided to other entities	5,186,246	4,883,995	6.19 %
Earnings on investments	77,065	287,478	(73.19) %
Intergovernmental	3,894,883	3,755,655	3.71 %
Other revenues	<u>339,872</u>	<u>461,938</u>	(26.42) %
Total	<u>\$ 13,623,304</u>	<u>\$ 14,155,427</u>	(3.76) %
<u>Expenditures</u>			
Instruction	\$ 4,449,111	\$ 3,998,856	11.26 %
Support services	<u>9,305,815</u>	<u>10,056,868</u>	(7.47) %
Total	<u>\$ 13,754,926</u>	<u>\$ 14,055,724</u>	(2.14) %

Miscellaneous State Grants Fund

The ESC's miscellaneous state grants fund balance increased by \$73,501. The increase in fund balance can be attributed to decreasing revenues still being more than a slight increase in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the miscellaneous state grants fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Intergovernmental	\$ <u>1,746,688</u>	\$ <u>2,196,592</u>	(20.48) %
Total	<u>\$ 1,746,688</u>	<u>\$ 2,196,592</u>	(20.48) %
<u>Expenditures</u>			
Support services	\$ <u>1,673,187</u>	\$ <u>1,608,592</u>	4.02 %
Total	<u>\$ 1,673,187</u>	<u>\$ 1,608,592</u>	4.02 %

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.

During the course of fiscal 2004, the ESC did amend its general fund budgeted revenues. For the general fund, original and final budgeted revenues and other financing sources were \$15,450,351 and \$15,518,776 respectively. Actual revenues and other financing sources for fiscal 2004 were \$14,938,095. This represents a \$580,681 decrease from budgeted revenues.

General fund original budgeted expenditures and other financing uses of \$15,612,817 were increased to \$15,681,241 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$15,413,344, which was \$267,897 less than the final budget appropriations.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

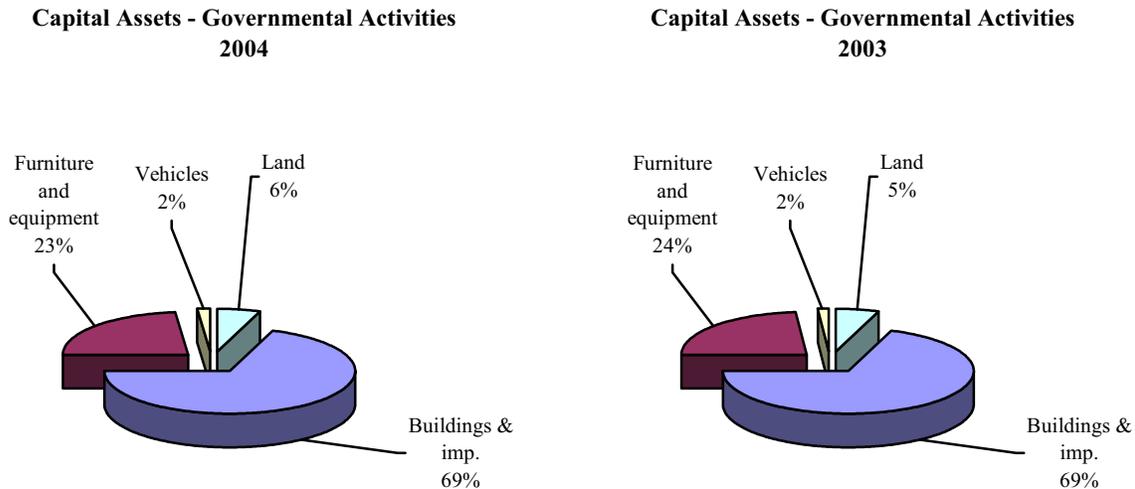
Capital Assets

At the end of fiscal 2004, the ESC had \$1,999,597 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 111,059	\$ 111,059
Buildings and improvements	1,390,763	1,419,893
Furniture and equipment	463,459	483,646
Vehicles	<u>34,316</u>	<u>32,486</u>
Total	<u>\$1,999,597</u>	<u>\$ 2,047,084</u>

Total additions to capital assets for 2004 were \$116,301. A total of \$151,028 in depreciation expense was recognized for fiscal 2004.

The graphs below present the ESC's capital assets for fiscal 2004 and fiscal 2003.



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

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Stark County, as well as state foundation revenue and grants. The need for additional services from local and city school districts, along with the ESC's cash balance, will provide the ESC with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the ESC is not without concerns.

Currently, the legislation regarding Ohio's Regional Education Delivery System and the implementation of that system by the Ohio Department of Education is in an ongoing process. This system will directly impact the Education Service Centers in Ohio and the method used to fund them. The Ohio Department of Education will submit a recommendation to the state legislatures.

Declining enrollment in Stark County remains a concern of the ESC. State funding is based on average daily membership of Stark County school districts. Continued decline in enrollment will have a direct impact on state revenues received by Stark County school districts and the amount of services they will need from the ESC.

Each year, additional services are needed by Stark County school districts. Therefore, the ESC is constantly reviewing their program activity to provide services while maintaining a financially solvent operation.

The ESC's systems of internal control and procedures are reviewed throughout the year to insure a cost efficient operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizen's supported by the districts, 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 Mr. Clifford Pocock, Treasurer, Stark County ESC, 2100 38th Street N.W., Canton, Ohio 44709-2300 or by calling (330) 492-8136.

**BASIC
FINANCIAL STATEMENTS**

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**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments.	\$ 2,554,239
Receivables:	
Intergovernmental	1,958,268
Accrued interest	45,618
Loans	60,000
Prepayments	6,793
Materials and supplies inventory.	9,006
Capital assets:	
Land	111,059
Depreciable capital assets, net	1,888,538
Total capital assets, net	<u>1,999,597</u>
 Total assets.	 <u>6,633,521</u>
Liabilities:	
Accounts payable.	207,897
Accrued wages and benefits	1,398,885
Pension obligation payable.	240,734
Intergovernmental payable	66,480
Long-term liabilities:	
Due within one year.	141,382
Due in more than one year	448,540
 Total liabilities	 <u>2,503,918</u>
Net Assets:	
Invested in capital assets	1,999,597
Restricted for:	
Capital projects	134,491
Other purposes	647,005
Unrestricted	<u>1,348,510</u>
 Total net assets	 <u>\$ 4,129,603</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK 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	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 72,270	\$ -	\$ 83,628	\$ -	\$ 11,358
Special	4,804,775	3,629,786	289,039	-	(885,950)
Adult/continuing	39,030	-	18,930	-	(20,100)
Support services:					
Pupil	805,871	-	58,140	-	(747,731)
Instructional staff	8,133,257	3,905,125	3,223,410	102,805	(901,917)
Board of education	52,598	-	-	-	(52,598)
Administration	2,809,550	1,967,839	361,240	-	(480,471)
Fiscal	339,617	-	-	-	(339,617)
Business	706,405	-	-	-	(706,405)
Operations and maintenance	113,593	21,096	-	-	(92,497)
Pupil transportation	6,129	-	-	-	(6,129)
Central	220,414	159,447	25,595	17,119	(18,253)
Food service operations	4,709	11,609	-	-	6,900
Total governmental activities	\$ 18,108,218	\$ 9,694,902	\$ 4,059,982	\$ 119,924	(4,233,410)

General Revenues:

Grants and entitlements not restricted to specific programs	3,894,883
Investment earnings	102,142
Miscellaneous	159,329
Total general revenues	4,156,354
Change in net assets	(77,056)
Net assets at beginning of year	4,206,659
Net assets at end of year	\$ 4,129,603

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 1,227,574	\$ 938,285	\$ 388,380	\$ 2,554,239
Receivables:				
Intergovernmental	1,586,472	169,645	202,151	1,958,268
Accrued interest	45,618	-	-	45,618
Loans	60,000	-	-	60,000
Interfund loan receivable	305,479	-	-	305,479
Prepayments	6,793	-	-	6,793
Materials and supplies inventory	9,006	-	-	9,006
Total assets	\$ 3,240,942	\$ 1,107,930	\$ 590,531	\$ 4,939,403
Liabilities:				
Accounts payable	\$ 33,170	\$ 121,779	\$ 52,948	\$ 207,897
Accrued wages and benefits	1,369,625	10,071	19,189	1,398,885
Compensated absences payable	79,107	-	-	79,107
Pension obligation payable	172,082	1,410	2,686	176,178
Intergovernmental payable	52,442	5,461	8,577	66,480
Interfund loan payable	-	131,278	174,201	305,479
Deferred revenue	1,310,952	169,645	202,151	1,682,748
Total liabilities	3,017,378	439,644	459,752	3,916,774
Fund Balances:				
Reserved for encumbrances	390,221	853,863	434,065	1,678,149
Reserved for materials and supplies inventory	9,006	-	-	9,006
Reserved for prepayments	6,793	-	-	6,793
Unreserved, undesignated (deficit), reported in:				
General fund	(182,456)	-	-	(182,456)
Special revenue funds	-	(185,577)	(358,657)	(544,234)
Capital projects funds	-	-	55,371	55,371
Total fund balances	223,564	668,286	130,779	1,022,629
Total liabilities and fund balances	\$ 3,240,942	\$ 1,107,930	\$ 590,531	\$ 4,939,403

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

Total governmental fund balances		\$ 1,022,629
<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.		1,999,597
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition from other districts	\$ 1,265,334	
Intergovernmental	371,796	
Accrued interest	45,618	
Total		1,682,748
Long-term liabilities, including compensated absences and pension obligations payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	510,815	
Pension obligation payable	64,556	
Total		(575,371)
Net assets of governmental activities		\$ 4,129,603

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

	<u>General</u>	<u>Miscellaneous State Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition	\$ 4,125,238	\$ -	\$ -	\$ 4,125,238
Contributions from private sources	16,078	-	-	16,078
Earnings on investments.	77,065	-	-	77,065
Charges for self-insurance.	159,447	-	-	159,447
Charges for services	-	-	11,609	11,609
Services provided to other entities.	5,186,246	-	-	5,186,246
Other local revenues.	164,347	-	-	164,347
Intergovernmental - Intermediate Sources	118,755	-	61,000	179,755
Intergovernmental - State	3,498,123	1,746,688	713,425	5,958,236
Intergovernmental - Federal.	278,005	-	1,286,997	1,565,002
Total revenue	<u>13,623,304</u>	<u>1,746,688</u>	<u>2,073,031</u>	<u>17,443,023</u>
Expenditures:				
Current:				
Instruction:				
Regular	-	-	72,270	72,270
Special.	4,449,111	-	299,839	4,748,950
Adult/continuing	-	-	39,030	39,030
Support Services:				
Pupil.	783,479	-	56,355	839,834
Instructional staff	4,776,953	1,328,264	1,907,380	8,012,597
Board of education	52,598	-	-	52,598
Administration.	2,476,239	222,256	140,506	2,839,001
Fiscal	206,637	122,667	-	329,304
Business	722,492	-	-	722,492
Operations and maintenance.	113,593	-	-	113,593
Pupil transportation	6,129	-	-	6,129
Central.	167,695	-	41,101	208,796
Food service operations	-	-	4,709	4,709
Total expenditures	<u>13,754,926</u>	<u>1,673,187</u>	<u>2,561,190</u>	<u>17,989,303</u>
Net change in fund balances	(131,622)	73,501	(488,159)	(546,280)
Fund balances at beginning of year.	354,820	594,785	618,938	1,568,543
Increase in reserve for inventory	366	-	-	366
Fund balances at end of year	<u>\$ 223,564</u>	<u>\$ 668,286</u>	<u>\$ 130,779</u>	<u>\$ 1,022,629</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK 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	\$	(546,280)
<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 (\$116,301) were less than depreciation expense (\$151,028) in the current period.		(34,727)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(12,760)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		588,139
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.		(71,794)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when incurred.		366
Change in net assets of governmental activities	\$	<u>(77,056)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK 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	\$ 5,212,914	\$ 5,236,000	\$ 4,381,368	\$ (854,632)
Contributions from private sources	-	-	16,078	16,078
Earnings on investments.	199,118	200,000	128,516	(71,484)
Charges for self-insurance	160,290	161,000	159,447	(1,553)
Services provided to other entities.	6,050,489	6,068,851	5,121,085	(947,766)
Other local revenues.	162,926	163,648	164,347	699
Intergovernmental - Intermediate Sources	62,498	62,775	118,755	55,980
Intergovernmental - State	3,422,910	3,446,502	3,498,123	51,621
Intergovernmental - Federal.	174,228	175,000	222,354	47,354
Total revenue	<u>15,445,373</u>	<u>15,513,776</u>	<u>13,810,073</u>	<u>(1,703,703)</u>
Expenditures:				
Current:				
Instruction:				
Special.	4,679,953	4,672,305	4,521,902	150,403
Support Services:				
Pupil.	862,771	861,361	802,084	59,277
Instructional staff	5,481,925	5,565,976	5,155,234	410,742
Board of education	95,988	95,831	82,137	13,694
Administration.	2,881,822	2,877,113	2,508,378	368,735
Fiscal	376,625	376,010	357,703	18,307
Business	889,110	888,585	812,532	76,053
Operations and maintenance.	140,959	140,729	127,299	13,430
Pupil transportation	8,376	8,362	6,129	2,233
Central.	188,777	188,469	168,634	19,835
Total expenditures	<u>15,606,306</u>	<u>15,674,741</u>	<u>14,542,032</u>	<u>1,132,709</u>
Excess of revenues over (under) expenditures.	<u>(160,933)</u>	<u>(160,965)</u>	<u>(731,959)</u>	<u>(570,994)</u>
Other financing sources (uses):				
Refund of prior year expenditure	4,978	5,000	41,022	36,022
Refund of prior year receipts.	(6,511)	(6,500)	(6,312)	188
Advances in.	-	-	1,087,000	1,087,000
Advances (out)	-	-	(865,000)	(865,000)
Total other financing sources (uses)	<u>(1,533)</u>	<u>(1,500)</u>	<u>256,710</u>	<u>258,210</u>
Net change in fund balance	(162,466)	(162,465)	(475,249)	(312,784)
Fund balance at beginning of year	1,221,175	1,221,175	1,221,175	-
Prior year encumbrances appropriated	100,169	100,169	100,169	-
Fund balance at end of year	<u>\$ 1,158,878</u>	<u>\$ 1,158,879</u>	<u>\$ 846,095</u>	<u>\$ (312,784)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental - State	\$ 616,911	\$ 1,747,130	\$ 1,705,088	\$ (42,042)
Intergovernmental - Federal	14,689	41,600	41,600	-
Total revenue	<u>631,600</u>	<u>1,788,730</u>	<u>1,746,688</u>	<u>(42,042)</u>
Expenditures:				
Current:				
Support Services:				
Instructional staff	1,287,244	2,277,046	2,277,046	-
Administration	125,987	222,863	221,603	1,260
Fiscal	88,071	155,791	155,791	-
Total expenditures	<u>1,501,302</u>	<u>2,655,700</u>	<u>2,654,440</u>	<u>1,260</u>
Excess of revenues over (under) expenditures	<u>(869,702)</u>	<u>(866,970)</u>	<u>(907,752)</u>	<u>(40,782)</u>
Other financing sources (uses):				
Refund of prior year receipts	(3,508)	(6,205)	(6,205)	-
Advances in	-	-	138,000	138,000
Advances (out)	-	-	(228,000)	(228,000)
Total other financing sources (uses)	<u>(3,508)</u>	<u>(6,205)</u>	<u>(96,205)</u>	<u>(90,000)</u>
Net change in fund balance	(873,210)	(873,175)	(1,003,957)	(130,782)
Fund balance at beginning of year	91,260	91,260	91,260	-
Prior year encumbrances appropriated	871,915	871,915	871,915	-
Fund balance at end of year	<u>\$ 89,965</u>	<u>\$ 90,000</u>	<u>\$ (40,782)</u>	<u>\$ (130,782)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Investment Trust	Agency
Assets:		
Equity in pooled cash and investments	\$ 11,315,985	\$ 2,268,048
Receivables:		
Intergovernmental	-	84,838
Accrued interest	106,482	-
Total assets	11,422,467	\$ 2,352,886
Liabilities:		
Accounts payable	-	\$ 128,001
Accrued wages and benefits	-	71,362
Intergovernmental payable	-	2,060,868
Pension obligation payable	-	25,195
Loans payable	-	60,000
Due to students	-	7,460
Total liabilities	-	\$ 2,352,886
Net Assets:		
Net assets available for pool participants	11,422,467	
Total net assets	\$ 11,422,467	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Investment Trust
Additions:	
Interest	\$ 83,733
Total additions	83,733
Deductions:	
Distributions to participants	420,051
Capital transactions	4,724,091
Total deductions	5,144,142
Change in net assets	(5,060,409)
Net assets at beginning of year.	16,482,876
Net assets at end of year.	\$ 11,422,467

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ESC

The Stark County Educational Service Center (the “ESC”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The Educational Service Center is a County Board of Education as defined by Section 3313.01 of the Ohio Revised Code. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts.

The Governing Board consists of 5 members elected by the voters of the County. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 169 non-certificated employees and 116 certificated employees to provide services to students throughout the County.

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 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”. The reporting entity is composed of the primary government, component units and other organization 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 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 have access to organizations 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:

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Stark-Portage Area Computer Consortium ("SPARCC") - SPARCC is a jointly governed organization which provides computer services to the school districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of approximately 31 member districts. However, SPARCC is primarily governed by a five-member executive board, which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Stark County Schools Council of Governments ("COG") - The COG is a group purchasing pool. The COG is governed by an Assembly which consists of one representative from each participating school district (usually the superintendent or designee). The Assembly elects officers for one year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the COG. All COG revenues are generated from charges for services.

In the case of SPARCC and the COG, the ESC serves as fiscal agent and custodian but is not accountable; therefore the operations of SPARCC and the COG have been excluded from the ESC's financial statements but the funds held on behalf of SPARCC are included as an agency fund and the funds held on behalf of the COG are included as an investment trust fund.

PUBLIC ENTITY RISK POOLS

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Health Benefits Plan is provided through the COG. The COG is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All Health Benefits Plan revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the ESC and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

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 are the ESC's major governmental funds:

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.

Miscellaneous State Grants - The miscellaneous state grants fund is used to account for various monies received from state agencies which are not classified elsewhere in accordance with the Uniform School Accounting System. The grants included here include the SIRI, Regional School Improvement, Regional Professional Development and the McAuliffe Fellowship Program.

The other governmental funds of the ESC account for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

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

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

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

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

The investment trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of fiduciary net assets. The statement of changes in fiduciary net assets presents increase (i.e., revenues) and decreases (i.e., expenses) in net total assets.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On 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.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the ESC during the fiscal year for which payment is not received in the available period have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before of date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenditures for the ensuing year on forms prepared and furnished by the State Board of Education, together with such other information as the Board may require. The Budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions and travel costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center.

Estimated Resources

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Appropriations

The annual Appropriation Resolution must be legally enacted by the 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 Governing Board 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 fund level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board.

The 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 Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations that were approved by the Governing Board prior to June 30, 2004. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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 fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

During fiscal year 2004, investments were limited to federal agency securities, repurchase agreements, and U.S. government money market mutual funds. 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, are reported at cost.

Under existing Ohio statute all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal 2004 totaled \$77,065, which includes \$58,009 assigned from other ESC funds.

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

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

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

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

G. Capital Assets

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

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 \$2,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land 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:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 years
Building and improvements	50 years
Furniture and equipment	10 - 20 years
Vehicles	5 - 10 years

H. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payment 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 the balance sheet date 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 greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

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

I. 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 and accrued liabilities from the fiduciary funds are reported on the fiduciary fund statements.

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

J. 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 purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

K. Fund Balance Reserves

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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.

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

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

M. Prepayments

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

N. Estimates

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

O. Interfund Activity

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

P. Interfund Balances

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

Q. Extraordinary and Special Items

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 18
Adult Basic Education	100
Public School Preschool	705
Limited English Proficiency	748
Title I	6,992
Miscellaneous Federal Grants	116,826

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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 Investments". 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 two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

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

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

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

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

Cash on hand: At fiscal year-end, the ESC had \$25 in undeposited cash on hand which is included on the basic financial statements of the ESC as part of "Equity in Pooled Cash and Investments".

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 year-end, the carrying amount of the ESC's deposits was \$(4,060,719) and the bank balance was \$244,743. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the ESC's bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of monies into overnight repurchase agreements, which are reported as "investments". Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and

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

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

2. \$144,743 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.

Investments: The ESC's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at 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 U.S. government money market mutual funds are uncatagorized investments since they are not evidenced by securities that exist in physical or book entry form.

	Category <u>2</u>	Category <u>3</u>	Carrying Amount	Fair Value
Repurchase agreements	\$ -	\$ 2,930,000	\$ 2,930,000	\$ 2,930,000
Federal agency securities	<u>14,959,903</u>	<u>-</u>	14,959,903	14,959,903
	<u>\$ 14,959,903</u>	<u>\$ 2,930,000</u>		
U.S. government money market mutual funds			<u>2,309,063</u>	<u>2,309,063</u>
Total investments			<u>\$ 20,198,966</u>	<u>\$ 20,198,966</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 16,138,272	\$ -
Investments of the cash management pool:		
Federal agency securities	(14,959,903)	14,959,903
Repurchase agreements	(2,930,000)	2,930,000
U.S. government money market mutual fund	(2,309,063)	2,309,063
Cash on hand	<u>(25)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (4,060,719)</u>	<u>\$ 20,198,966</u>

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

NOTE 5 - INTERFUND TRANSACTIONS

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	Miscellaneous State Grants Fund	\$ 131,278
General	Nonmajor governmental funds	174,201

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.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of intergovernmental (billings to school districts for user charged services and tuition), accrued interest and loans. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Intergovernmental	\$ 1,958,268
Accrued interest	45,618
Loans	60,000

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year. See Note 17 for more detail on loans receivable.

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

NOTE 7 - CAPITAL ASSETS

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

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
Governmental Activities:				
Land	\$ 111,059	\$ -	\$ -	\$ 111,059
Total capital assets, not being depreciated	<u>111,059</u>	<u>-</u>	<u>-</u>	<u>111,059</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	76,515	-	-	76,515
Buildings and improvements	1,785,185	6,480	-	1,791,665
Furniture and equipment	1,060,569	94,351	(36,473)	1,118,447
Vehicles	83,423	15,470	-	98,893
Total capital assets, being depreciated	<u>3,005,692</u>	<u>116,301</u>	<u>(36,473)</u>	<u>3,085,520</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(76,515)	-	-	(76,515)
Buildings and improvements	(365,292)	(35,610)	-	(400,902)
Furniture and equipment	(576,923)	(101,778)	23,713	(654,988)
Vehicles	(50,937)	(13,640)	-	(64,577)
Total accumulated depreciation	<u>(1,069,667)</u>	<u>(151,028)</u>	<u>23,713</u>	<u>(1,196,982)</u>
Governmental activities capital assets, net	<u>\$ 2,047,084</u>	<u>\$ (34,727)</u>	<u>\$ (12,760)</u>	<u>\$ 1,999,597</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 15,076
<u>Support Services:</u>	
Instructional staff	102,207
Administration	8,404
Fiscal	3,683
Business	10,040
Central	<u>11,618</u>
Total depreciation expense	<u>\$ 151,028</u>

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

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Compensated absences	\$ 525,778	\$ 207,289	\$ (143,145)	\$ 589,922	\$ 141,382
Total	<u>\$ 525,778</u>	<u>\$ 207,289</u>	<u>\$ (143,145)</u>	<u>\$ 589,922</u>	<u>\$ 141,382</u>

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

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

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

B. Shared Risk Pool

The ESC is a participant in the Stark County Schools Council of Governments ("COG") for the purpose of obtaining benefits at a reduced premium for both health care and workers' compensation.

The ESC's insurance program for health care, through the COG, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the COG for monthly premiums, monthly stop-loss premiums and administrative charges. The ESC is fiscal agent for the COG. The Treasurer of the ESC pays Mutual Health Services Company and Aultcare Corporation monthly for all participating districts, the actual amount of claims processed, the stop-loss premium and the administrative charges.

C. Worker's Compensation

The ESC also participates in a program with the COG to obtain workers' compensation coverage. This program is administered by Comp Management, Inc. The experience rating of each of the participating districts is calculated as one experience rate and applied to all participants in the program. Premiums paid to the Ohio Bureau of Workers' Compensation are based on this calculation. Total savings are then determined and each participant's performance is compared to the overall savings percentage of the program. The districts will then either receive money back or be required to contribute additional money to the Program.

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

NOTE 10 - 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% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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 \$541,843, \$478,864, and \$488,444, respectively; 100% 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$819,034, \$754,920, and \$752,362, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The ESC's liability is 6.2 percent of wages paid.

NOTE 11 - 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$58,502 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 (the latest information available). For the fiscal year ended June 30, 2004, (the latest information available) 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available) were \$223,444 million and the target level was \$335.2 million. At June 30, 2004 (the latest information available), 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 \$213,554 during the 2004 fiscal year.

NOTE 12 - 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 and the miscellaneous state grants fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and the Miscellaneous State Grant Fund are as follows:

	Net Change in Fund Balance	
	<u>General Fund</u>	<u>Miscellaneous State Grants Fund</u>
Budget basis	\$ (475,249)	\$ (1,003,957)
Net adjustment for revenue accruals	(186,769)	-
Net adjustment for expenditure accruals	367,424	2,186
Net adjustment for other sources/uses	(256,710)	96,205
Adjustment for encumbrances	<u>419,682</u>	<u>979,067</u>
GAAP basis	<u>\$ (131,622)</u>	<u>\$ 73,501</u>

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 13 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

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

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

C. State School Funding Decision

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

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

NOTE 14 - INVESTMENT POOL

The ESC serves as fiscal agent for the Stark County Schools Council of Governments (COG) which is a legally separate entity. Investments are specifically purchased in the name of COG. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The COG earns interest on investments purchased in the name of the COG. This activity makes up the external portion of the investment pool.

During fiscal year 2004, investments were limited to federal agency securities, repurchase agreements, and U.S. government money market mutual funds. 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, are reported at cost.

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 14 - INVESTMENT POOL - (Continued)

Condensed financial information for the investment pool follows:

Statement of Net Assets
June 30, 2004

Assets	
Equity in Pooled Cash and Investments	\$ 16,138,272
Accrued Interest Receivable	<u>152,100</u>
<i>Total Assets</i>	<u><u>16,290,372</u></u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	4,867,905
External Portion	<u>11,422,467</u>
<i>Total Net Assets Held in Trust for Pool Participants</i>	<u><u>16,290,372</u></u>

Statement of Changes in Net Assets
For Fiscal Year Ended June 30, 2004

Additions	
Interest	<u>\$ 185,875</u>
<i>Total Additions</i>	<u>185,875</u>
Deductions	
Distributions to Participants	548,567
Capital Transactions	<u>6,127,984</u>
<i>Total Deductions</i>	<u>6,676,551</u>
<i>Change in Net Assets</i>	(6,490,676)
<i>Net Assets, Beginning of Year</i>	<u>22,781,048</u>
<i>Net Assets, End of Year</i>	<u><u>\$ 16,290,372</u></u>

Deposits and investments of the investment pool mirror those of the ESC. There are no differences between the deposits and investments of the ESC and those of the investment pool. See Note 4 for the investment pools classifications of deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY, OHIO**

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

NOTE 15 - RELATED PARTY TRANSACTIONS

During fiscal year 2004, the ESC received fees in the amount of \$150,198 for fiscal agent services provided to the Stark County Schools Council of Governments.

The ESC also serves as fiscal agent for Stark Portage Area Computer Consortium (SPARCC). In lieu of fiscal agent fees, the ESC receives computer services from SPARCC at no charge.

NOTE 16 - STATE FUNDING

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

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

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

NOTE 17 - LOANS RECEIVABLE/PAYABLE

During fiscal 2004, the ESC made loans from the general fund to fiduciary funds as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 60,000
Total		<u>\$ 60,000</u>

The primary purpose of these loans is to cover costs where revenues were not received by June 30. These loans will be repaid once the anticipated revenues are received. The loans are expected to be repaid in the subsequent year.

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**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Cash Disbursements
United States Department of Education				
<i>(Passed-through the Ohio Department of Education)</i>				
Special Education Preschool Grant	49825-PG-S1-2004	84.173	\$ 110,657	\$ 110,657
	49825-PG-D7-2003P		21,510	21,510
Total Special Education Preschool Grant			132,167	132,167
Adult Education: State Grant Program	49825-AB-S1-2004	84.002	11,751	11,751
	49825-AB-S1-2003		12,600	12,600
Total Adult Education: State Grant Program			24,351	24,351
Even Start State Educational Agencies	49825-EV-S1-2004	84.213	37,543	
	49825-EV-S4-2003		35,540	49,620
	49825-EV-S3-2002		56,357	222,285
Total Even Start State Educational Agencies			129,440	271,905
Eisenhower Professional Development State Grant	49825-RF-MP-2002	84.281	41,600	35,395
Total U. S. Department of of Education			327,558	463,818
United States Department of Health and Human Services				
<i>(Passed-through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Medical Assistance Program	N/A	93.778	188,152	188,152
United States Department of Agriculture				
<i>(Passed-through the Ohio Department of Education)</i>				
Child Nutrition Cluster:				
School Breakfast Program	N/A	10.553	5,143	5,143
National School Lunch Program	N/A	10.555	14,966	14,966
Child and Adult Care Food Program	N/A	10.558	13,701	13,701
Total Child Nutrition Cluster			33,810	33,810
National Science Foundation				
<i>(Direct)</i>				
Education and Human Resources	N/A	47.076	1,088,000	1,042,434
			329,000	332,484
Total Education and Human Resources			1,417,000	1,374,918
Totals			\$1,966,520	\$2,060,698

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

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

NOTE C – CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed Federal monies are expended first.



Auditor of State Betty Montgomery

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

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Stark County Educational Service Center, Stark County, Ohio, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 we must report under *Government Auditing Standards*.

However, we noted an immaterial instance of noncompliance that we have reported to the Service Center's management in a separate letter dated April 4, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

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Stark County Educational Service Center
Stark County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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 Service Center's management in a separate letter dated April 4, 2005.

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 4, 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

Stark County Educational Service Center
Stark County
2100 38th Street N.W.
Canton, Ohio 44709

To the Governing Board:

Compliance

We have audited the compliance of the Stark County Educational Service Center, Stark County, Ohio, (the 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 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 Service Center's management. Our responsibility is to express an opinion on the 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 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 Service Center's compliance with those requirements.

In our opinion, the 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 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 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.

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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.

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 4, 2005

**STARK COUNTY EDUCATIONAL SERVICE CENTER
STARK 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):	National Science Foundation – Education and Human Resources – CFDA #47.076
(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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STARK COUNTY EDUCATIONAL SERVICE CENTER

STARK 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 17, 2005**