

Perry-Hocking Educational Service Center, Ohio

Perry County

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have reviewed the Independent Auditor's Report of the Perry-Hocking Educational Service Center, Perry County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 to June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Perry-Hocking Educational Service Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 13, 2005

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Perry-Hocking Educational Service Center
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry Hocking Educational Service Center (the Educational Service Center), Perry County, as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion 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 the 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 Educational Service Center, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and miscellaneous special revenue fund 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 December 17, 2004 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

December 17, 2004

Perry-Hocking Educational Service Center, Ohio

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2004 are as follows :

- In total, net assets increased \$399,243, which represents a 44 percent decrease from fiscal year 2003.
- Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$5,175,048 , or 86 percent of total revenues.
- The Educational Service Center had \$5,630,765 in total expenses, only \$5,175,048 of these expenses were offset by program specific charges for services and operating grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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 Perry-Hocking Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Reporting the Educational Service Center as a Whole

Statement of New Assets and Statement of Activities

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

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the mandated educational programs, as well as locally requested programs.

All of the Educational Service Center's programs and services provided are reported as governmental activities. These activities include; instruction, support services, and non-instructional services.

Perry-Hocking Educational Service Center, Ohio

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 6. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Miscellaneous State Grants Special Revenue Fund.

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

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003.

	Governmental Activities	
	2004	2003 *
Assets		
Current and Other Assets	\$1,395,783	\$1,100,470
Capital Assets	1,441,928	1,503,446
Total Assets	2,837,711	2,603,916
Liabilities		
Long-term Liabilities	134,209	265,367
Other Liabilities	774,389	808,679
Total Liabilities	908,598	1,074,046
Net Assets		
Invested in Capital Assets, Net of Debt	1,406,084	1,458,049
Restricted	319,958	207,569
Unrestricted	203,071	(135,748)
Total Net Assets	\$1,929,113	\$1,529,870

* As restated, see Note 3

Total assets increased \$233,795. This increase is primarily due to the increase in cash and cash equivalents.

The total liabilities decrease of \$165,448 is due to decreases in accounts payable and compensated absences payable.

Perry-Hocking Educational Service Center, Ohio

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004 as compared to 2003.

	Governmental Activities	
	2004	2003
Revenues		
Program Revenues		
Charges for Services	\$3,199,502	\$3,086,272
Operating Grants, Contributions, and Interest	1,975,546	1,905,486
Capital Grants and Contributions	0	1,029,000
Total Program Revenues	<u>5,175,048</u>	<u>6,020,758</u>
General Revenues		
Grants and Entitlements	733,658	227,621
Investment Earnings	11,976	18,047
Gifts and Donations	1,745	0
Gain on Sale of Capital Assets	2,797	0
Miscellaneous	104,784	40,556
Total General Revenues	<u>854,960</u>	<u>286,224</u>
Total Revenues	<u>6,030,008</u>	<u>6,306,982</u>
Program Expenses		
Instruction:		
Regular	689,125	760,298
Special	768,306	761,946
Adult/Continuing	27,057	37,923
Support Services:		
Pupils	879,536	813,090
Instructional Staff	1,425,250	1,420,403
Board of Education	63,499	47,640
Administration	1,256,534	1,287,064
Fiscal	222,422	221,643
Operation and Maintenance of Plant	193,956	157,002
Pupil Transportation	2,940	3,059
Central	85,101	72,943
Operation of Non-Instructional Services	9,455	8,419
Extracurricular Activities	4,299	5,049
Interest and Fiscal Charges	3,285	3,210
Total Expenses	<u>5,630,765</u>	<u>5,599,689</u>
Increase in Net Assets	<u>\$399,243</u>	<u>\$707,293</u>

Over the past several years, the Educational Service Center has remained in good financial position. The Educational Service Center has added several staff members to accommodate the additional instructional and support staff related programs. The combined salaries and benefits as well as supplies have increased the expenses. The expenses for the Perry-Hocking Educational Service Center have increased but are offset by revenues and fund balances.

Perry-Hocking Educational Service Center, Ohio

*Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for 2004 as compared to 2003. That is, it identifies the cost of those services supported by unrestricted state entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u> <u>2004</u>	<u>Net Cost of Services</u> <u>2004</u>	<u>Total Cost of Services</u> <u>2003</u>	<u>Net Cost of Services</u> <u>2003</u>
Program Expenses				
Instruction:				
Regular	\$689,125	(\$66,929)	\$760,298	(\$77,036)
Special	768,306	140,392	761,946	97,173
Adult/Continuing	27,057	(736)	37,923	2,371
Support Services:				
Pupils	879,536	(155,891)	813,090	(297,955)
Instructional Staff	1,425,250	(127,809)	1,420,403	(59,123)
Board of Education	63,499	(13,431)	47,640	(25,400)
Administration	1,256,534	(154,187)	1,287,064	895,781
Fiscal	222,422	(29,431)	221,643	(59,292)
Operation and Maintenance of Plant	193,956	(30,762)	157,002	(26,306)
Pupil Transportation	2,940	(1,186)	3,059	(1,695)
Central	85,101	(15,877)	72,943	(25,463)
Operation of Non-Instructional Services	9,455	1,074	8,419	(101)
Extracurricular Activities	4,299	(789)	5,049	1,325
Interest and Fiscal Charges	3,285	(155)	3,210	(3,210)
Total	<u>\$5,630,765</u>	<u>(\$455,717)</u>	<u>\$5,599,689</u>	<u>\$421,069</u>

THE EDUCATIONAL SERVICE CENTER FUNDS

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$6,009,199 and expenditures of \$5,740,088.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

As services provided to the local school districts change during the fiscal year, adjustments are made from the original budget. One example of a need to increase the budget would be an increase in classroom students. Teacher Aides, which had not been budgeted for originally, would be added to the classroom enrollment factors. This type of request generally comes directly from the Superintendent of the school district where the classroom unit is housed. Additions to personnel are the primary cause for budget revisions and are approved by the Educational Service Center's Board.

For the General Fund, final budgeted revenues were \$4,189,126, \$352 below beginning of the fiscal year estimates. Final budgeted expenditures for the General Fund were \$4,050,000, which remained unchanged from the beginning of the fiscal year.

Perry-Hocking Educational Service Center, Ohio

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had \$1,441,928 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land and Land Improvements	\$245,523	\$245,523
Buildings and Improvements	969,512	1,010,822
Furniture and Equipment	215,774	230,086
Vehicles	11,119	17,015
Totals	<u>\$1,441,928</u>	<u>\$1,503,446</u>

For additional capital asset information, see note 9 to the basic financial statements.

Debt

At June 30, 2004, the Educational Service Center had capital leases outstanding of \$35,844. The leases are for a fax machine and a copier. For additional information on debt, see note 14 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kathy Sampson, Treasurer at Perry-Hocking Educational Service Center, 1605 Airport Road, New Lexington, Ohio 43764.

Perry-Hocking Educational Service Center

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,046,321
Accounts Receivable	672
Intergovernmental Receivable	348,790
Total Current Assets	<u>1,395,783</u>
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	245,523
Depreciable Capital Assets, Net	1,196,405
Total Noncurrent Assets	<u>1,441,928</u>
Total Assets	<u><u>2,837,711</u></u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	38,752
Accrued Wages and Benefits Payable	510,398
Vacation Benefits Payable	64,467
Intergovernmental Payable	157,435
Claims Payable	3,337
Current Portion of Long-Term Obligation	9,286
Total Current Liabilities	<u>783,675</u>
<i>Noncurrent Liabilities:</i>	
Noncurrent Portion of Long-Term Obligation	<u>124,923</u>
Total Liabilities	<u>908,598</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,406,084
Restricted for:	
Other Purposes	284,910
Internal Service	35,048
Unrestricted	<u>203,071</u>
Total Net Assets	<u><u>\$1,929,113</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio

Statement of Activities

For the Fiscal Year Ended June, 30, 2004

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$689,125	\$280,248	\$341,948	(\$66,929)
Special	768,306	601,727	306,971	140,392
Adult/Continuing	27,057	1,054	25,267	(736)
Support Services:				
Pupils	879,536	605,732	117,913	(155,891)
Instructional Staff	1,425,250	808,944	488,497	(127,809)
Board of Education	63,499	50,068	0	(13,431)
Administration	1,256,534	581,845	520,502	(154,187)
Fiscal	222,422	118,874	74,117	(29,431)
Operation and Maintenance of Plant	193,956	81,393	81,801	(30,762)
Pupil Transportation	2,940	70	1,684	(1,186)
Central	85,101	65,855	3,369	(15,877)
Operation of Non-Instructional Services	9,455	422	10,107	1,074
Extracurricular Activities	4,299	140	3,370	(789)
Interest and Fiscal Charges	3,285	3,130	0	(155)
<i>Total Governmental Activities</i>	<u>\$5,630,765</u>	<u>\$3,199,502</u>	<u>\$1,975,546</u>	<u>(455,717)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				733,658
Investment Earnings				11,976
Gifts and Donations not Restricted to Specific Programs				1,745
Gain on Sale of Capital Assets				2,797
Miscellaneous				104,784
<i>Total General Revenues</i>				<u>854,960</u>
<i>Change in Net Assets</i>				399,243
<i>Net Assets at Beginning of Year - As Restated, See Note 3</i>				<u>1,529,870</u>
<i>Net Assets at End of Year</i>				<u><u>\$1,929,113</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, 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 Cash Equivalents	\$618,120	\$221,007	\$168,809	\$1,007,936
Receivables:				
Accounts	0	390	282	672
Intergovernmental	<u>291,479</u>	<u>18,557</u>	<u>38,754</u>	<u>348,790</u>
Total Assets and Other Debits	<u>\$909,599</u>	<u>\$239,954</u>	<u>\$207,845</u>	<u>\$1,357,398</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$9,512	\$26,843	\$2,397	\$38,752
Accrued Wages and Benefits Payable	442,652	13,253	54,493	510,398
Intergovernmental Payable	87,655	8,833	8,373	104,861
Deferred Revenue	<u>105,149</u>	<u>18,557</u>	<u>19,144</u>	<u>142,850</u>
Total Liabilities	<u>644,968</u>	<u>67,486</u>	<u>84,407</u>	<u>796,861</u>
Fund Balances				
Reserved for Encumbrances	35,646	161,307	25,573	222,526
Unreserved, Undesignated, Reported in:				
General Fund	228,985	0	0	228,985
Special Revenue Funds	<u>0</u>	<u>11,161</u>	<u>97,865</u>	<u>109,026</u>
Total Fund Balances	<u>264,631</u>	<u>172,468</u>	<u>123,438</u>	<u>560,537</u>
Total Liabilities and Fund Balances	<u>\$909,599</u>	<u>\$239,954</u>	<u>\$207,845</u>	<u>\$1,357,398</u>

See accompanying notes to the basic financial statements.

Perry-Hocking Education Service Center, Ohio
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004*

Total Governmental Fund Balances		\$560,537
<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.		1,441,928
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds: Grants		142,850
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		35,048
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(52,574)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	(35,844)	
Vacation Benefits Payable	(64,467)	
Sick Leave Benefits Payable	(98,365)	
	<u> </u>	<u>(198,676)</u>
Net Assets of Governmental Activities		<u><u>\$1,929,113</u></u>

See accompanying notes to the basic financial statements.

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

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$973,861	\$981,670	\$705,000	\$2,660,531
Interest	11,976	0	0	11,976
Charges for Services	179,525	0	0	179,525
Tuition and Fees	2,949,715	0	70,262	3,019,977
Gifts and Donations	0	0	1,745	1,745
Miscellaneous	92,710	390	11,684	104,784
<i>Total Revenues</i>	<u>4,207,787</u>	<u>982,060</u>	<u>788,691</u>	<u>5,978,538</u>
Expenditures				
Current:				
Instruction:				
Regular	349,131	74,395	279,185	702,711
Special	768,890	0	21,930	790,820
Adult/Continuing	539	0	26,076	26,615
Support Services:				
Pupils	792,790	0	111,839	904,629
Instructional Staff	999,655	281,238	211,648	1,492,541
Board of Education	63,327	0	0	63,327
Administration	736,513	447,298	79,446	1,263,257
Fiscal	141,805	70,468	3,158	215,431
Operation and Maintenance of Plant	96,928	34,938	44,030	175,896
Pupil Transportation	1,406	0	1,089	2,495
Central	73,610	0	3,253	76,863
Operation of Non-Instructional Services	0	0	8,366	8,366
Extracurricular Activities	0	0	4,299	4,299
Debt Service:				
Principal Retirement	9,553	0	0	9,553
Interest and Fiscal Charges	3,285	0	0	3,285
<i>Total Expenditures</i>	<u>4,037,432</u>	<u>908,337</u>	<u>794,319</u>	<u>5,740,088</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>170,355</u>	<u>73,723</u>	<u>(5,628)</u>	<u>238,450</u>
Other Financing Sources				
Proceeds from Sale of Fixed Assets	30,661	0	0	30,661
<i>Net Change in Fund Balance</i>	201,016	73,723	(5,628)	269,111
<i>Fund Balances at Beginning of Year - As Restated (See Note 3)</i>	<u>63,615</u>	<u>98,745</u>	<u>129,066</u>	<u>291,426</u>
<i>Fund Balances at End of Year</i>	<u>\$264,631</u>	<u>\$172,468</u>	<u>\$123,438</u>	<u>\$560,537</u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, 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 \$269,111

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period:

Capital Asset Additions	90,635	
Depreciation Expense	<u>(124,289)</u>	(33,654)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the gain on the disposal of capital assets:

Gain on Disposal of Capital Assets	2,797	
Proceed on Disposal Of Capital Assets	<u>(30,661)</u>	(27,864)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants		48,673
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The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities

27,473

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

9,553

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payables	(3,979)	
Sick Leave Benefits Payable	121,605	
Vacation Benefits Payable	<u>(11,675)</u>	<u>105,951</u>

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$399,243</u></u>
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See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Non-GAAP Budgetary Basis)
General
For the Fiscal Year Ended June 30, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget: Positive (Negative)
	Original	Final		
Total Revenues and Other Sources	\$4,189,478	\$4,189,126	\$4,189,126	\$0
Total Expenditures and Other Uses	4,050,000	4,050,000	3,969,682	80,318
Net Change in Fund Balance	139,478	139,126	219,444	80,318
Fund Balance, July 1	346,806	346,806	346,806	0
Prior Year Encumbrances Appropriated	23,684	23,684	23,684	0
Fund Balance, June 30	\$509,968	\$509,616	\$589,934	\$80,318

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, 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>		<u>Actual</u>	Variance with Final Budget: Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Total Revenues and Other Sources	\$1,053,569	\$1,053,569	\$1,035,012	(\$18,557)
Total Expenditures and Other Uses	<u>1,215,050</u>	<u>1,261,775</u>	<u>1,156,676</u>	<u>105,099</u>
Net Change in Fund Balance	(161,481)	(208,206)	(121,664)	86,542
Fund Balance, July 1	28,546	28,546	28,546	0
Prior Year Encumbrances Appropriated	<u>179,660</u>	<u>179,660</u>	<u>179,660</u>	<u>0</u>
Fund Balance, June 30	<u><u>\$46,725</u></u>	<u><u>\$0</u></u>	<u><u>\$86,542</u></u>	<u><u>\$86,542</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
June 30, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$38,385</u>
Liabilities	
Claims Payable	<u>3,337</u>
<i>Total Liabilities</i>	<u>3,337</u>
Net Assets	
Unrestricted	<u>\$35,048</u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2004*

Operating Revenues	
Charges for Services	<u>\$89,898</u>
Operating Expenses	
Purchased Services	6,603
Claims	<u>55,822</u>
<i>Total Operating Expenses</i>	<u>62,425</u>
<i>Change in Net Assets</i>	27,473
<i>Net Assets at Beginning of Year</i>	<u>7,575</u>
<i>Net Assets at End of Year</i>	<u><u>\$35,048</u></u>

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transaction with Other Funds	\$84,280
Cash Payments to Suppliers for Services	(6,603)
Cash Payments for Claims	<u>(65,097)</u>

Net Cash Provided by Operating Activities 12,580

Cash and Cash Equivalents at Beginning of Year 25,805

Cash and Cash Equivalents at End of Year \$38,385

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities**

Operating Income \$27,473

Changes in Assets and Liabilities

Decrease in Claims Payable	(9,275)
Decrease in Deferred Revenue	<u>(5,618)</u>

Net Cash Provided by Operating Activities \$12,580

See accompanying notes to the basic financial statements.

Perry-Hocking Educational Service Center, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$155,393</u></u>
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Liabilities

Undistributed Monies	<u><u>\$155,393</u></u>
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See accompanying notes to the financial statements.

Perry-Hocking Educational Service Center, Ohio

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

Note 1 – Reporting Entity

The Perry-Hocking Educational Service Center (the “Educational Service Center”) is located in New Lexington, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Northern, Southern, Logan-Hocking Local School Districts, the New Lexington City School District, and the Crooksville Exempted Village School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally -elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has two administrators, sixty certified teaching personnel, and seventy-two classified employees that provide services to 10,528 students from the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Perry-Hocking Educational Service Center, this includes general operations, preschool, adult/continuing instruction, and student related activities.

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

The Educational Service Center participates in four jointly governed organizations and two insurance purchasing pools. These organizations are the Southeast Ohio Voluntary Educational Consortium, Tri-County Joint Vocational School District, the Mid-East Joint Vocational School District, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Ohio School Plan, which are presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Educational Service Center 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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center’s accounting policies are described below.

Perry-Hocking Educational Service Center, Ohio

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this Educational Service Center can be classified using three categories, 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 Educational Service Center has two major governmental funds:

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

Miscellaneous State Grants Special Revenue Fund The Miscellaneous State Grant Special Revenue Fund accounts for various monies received from state agencies which are not classified elsewhere.

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

Perry-Hocking Educational Service Center, Ohio

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the Educational Service Center's self-insurance program for employee dental and vision claims.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using 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 reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

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

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Perry-Hocking Educational Service Center, Ohio

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

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

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$11,976. Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented as cash and cash equivalents.

Perry-Hocking Educational Service Center, Ohio

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

F. Capital Assets

All of the Educational Service Center's capital assets are general capital assets resulting 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 fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Buildings and Improvements	20-25 years
Furniture, Fixtures, and Equipment	5-15 years
Vehicles	5 years

G. Interfund Activity

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

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means.

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

I. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Perry-Hocking Educational Service Center, Ohio

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

However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

J. Fund Balance Reserves

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

K. Estimates

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted for specific purposes. Net assets restricted for internal service represents balances in the Educational Service Center's internal service fund restricted for claims payments.

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

M. Budgetary Process

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

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

Perry-Hocking Educational Service Center, Ohio

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

Note 3 – Changes in Accounting Principle and Restatement of Fund Balance

For the fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units.” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government.

At June 30, 2004, the Educational Service Center does not have any organizations that qualify as a component unit of the primary government and therefore, there was no effect on fund balance as a result of implementing GASB 39.

Restatements: Restatements were made to correct accounting errors related to prepaid expenses and capital assets.

These restatements had the following effects on fund balance of the major and non-major funds and net assets of the District as they were previously reported:

	General	Miscellaneous State Grants	Nonmajor	Total
Fund Balances, June 30, 2003	\$63,883	\$98,745	\$128,798	\$291,426
Correction of Error	<u>(268)</u>	<u>0</u>	<u>268</u>	<u>0</u>
Adjusted Fund Balances, June 30, 2003	<u>\$63,615</u>	<u>\$98,745</u>	<u>\$129,066</u>	<u>\$291,426</u>
 Net Assets, June 30, 2003				\$1,532,207
Correction of Error				<u>(2,337)</u>
Net Assets, June 30,2003				<u>\$1,529,870</u>

Note 4 - Budgetary Basis of Accounting

While the Educational Service Center is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund and Miscellaneous State Grants Special Revenue Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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

Perry-Hocking Educational Service Center, Ohio

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

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

	Net Change in Fund Balance	
	General	Miscellaneous State Grants
GAAP Basis	\$201,016	\$73,723
Revenue Accruals	(49,322)	52,952
Expenditure Accruals	95,935	(113,876)
Encumbrances	(28,185)	(134,463)
Budget Basis	<u>\$219,444</u>	<u>(\$121,664)</u>

Note 5 - Deposits and Investments

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

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

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

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

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

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

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

Perry-Hocking Educational Service Center, Ohio

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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 Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held until 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$797,919 and the bank balance was \$1,001,899. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$901,899 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the Educational Service Center's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Perry-Hocking Educational Service Center, Ohio

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

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

	Fair Value
STAR Ohio	<u>\$403,795</u>

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	<u>\$1,201,714</u>	<u>\$0</u>
STAR Ohio	<u>(403,795)</u>	<u>403,795</u>
GASB Statement 3	<u><u>\$797,919</u></u>	<u><u>\$403,795</u></u>

Note 6 – State Funding

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

Part (B) of the budget is provided by the local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district’s portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50.

This amount is deducted by the State Department of Education from that local school district’s resources provided under the State’s School Foundation Program. The Department of Education’s portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

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

Perry-Hocking Educational Service Center, Ohio

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

Note 7 - Receivables

Receivables at June 30, 2004, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Major Fund:	
General Fund	\$291,479
Miscellaneous State Grant Fund:	
Appalachian Science Institute	18,557
Non-Major Special Revenue Funds:	
Regional Pathwise	2,000
Adult Basic Literacy Education	7,998
Community Service	5,437
Public Preschool	12,173
Drug Free Schools	11,146
Total Nonmajor Special Revenue Funds	<u>38,754</u>
Total Intergovernmental Receivables	<u><u>\$348,790</u></u>

Perry-Hocking Educational Service Center, Ohio

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

Note 8 - Risk Management

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district and educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 16)

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

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Personal and Advertising injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	500,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000
Employer's Liability:	
Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
Employee's Benefits Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

B. Workers' Compensation

For fiscal year 2004, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Perry-Hocking Educational Service Center, Ohio

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

C. Employee Dental and Vision Benefits

Dental and vision insurance is offered to employees through a self-insurance internal service fund. The fund is responsible for \$76,304 in claims per individual per year. After that, stop-loss covers up to a lifetime maximum of \$1,000,000 per covered classified person and \$2,500,000 per covered certified and exempt person. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The claims liability of \$3,337 reported in the internal service fund at June 30, 2004, is based upon an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Beginning of Year	Current Year Claims	Claims Payments	End of Year
2003	\$8,864	\$62,854	\$59,106	\$12,612
2004	12,612	55,822	65,097	3,337

Perry-Hocking Educational Service Center, Ohio

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

Note 9 – Capital Assets

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

	Balance at 6/30/2003**	Additions	Deletions	Balance at 06/30/04
Capital Assets:				
Capital Assets not being Depreciated:				
Land and Land Improvements	<u>\$245,523</u>	<u>\$0</u>	<u>\$0</u>	<u>\$245,523</u>
Depreciable Capital Assets:				
Buildings and Improvements	1,032,013	0	0	1,032,013
Furniture, Fixtures, and Equipment	409,393	90,635	(36,511)	463,517
Vehicles	<u>22,981</u>	<u>0</u>	<u>(5,400)</u>	<u>17,581</u>
Total Depreciable Capital Assets	<u>1,464,387</u>	<u>90,635</u>	<u>(41,911)</u>	<u>1,513,111</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(21,191)	(41,310)	0	(62,501)
Furniture, Fixtures, and Equipment	(179,307)	(80,863)	12,427	(247,743)
Vehicles	<u>(5,966)</u>	<u>(2,116)</u>	<u>1,620</u>	<u>(6,462)</u>
Total Accumulated Depreciation	<u>(206,464)</u>	<u>(124,289) *</u>	<u>14,047</u>	<u>(316,706)</u>
Total Capital Assets being Depreciated, Net	<u>1,257,923</u>	<u>(33,654)</u>	<u>(27,864)</u>	<u>1,196,405</u>
Capital Assets, Net	<u>\$1,503,446</u>	<u>(\$33,654)</u>	<u>(\$27,864)</u>	<u>\$1,441,928</u>

** As Restated , See Note 3

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$13,725
Special	2,157
Adult/Continuing	2,146
Support Services:	
Pupils	6,441
Instructional Staff	13,263
Administration	66,640
Fiscal	2,400
Operation and Maintenance of Plant	16,802
Central	270
Pupil Transportation	<u>445</u>
Total Depreciation Expense	<u>\$124,289</u>

Perry-Hocking Educational Service Center, Ohio

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$82,045, \$81,058, and \$49,198, respectively; 51 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years.

Perry-Hocking Educational Service Center, Ohio

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

The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds.

This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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 designed beneficiary is entitled to receive the member’s account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Perry-Hocking Educational Service Center, Ohio

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Effective July 1, 2003, the member contribution rate increased to the statutory maximum of 10 percent.

The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002, were \$119,572, \$292,178, and \$225,109, respectively; 66 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

Note 11 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$25,518 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, employer contributions to fund health care benefits were 4.91 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$24,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$88,735.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

Perry-Hocking Educational Service Center, Ohio

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

Note 12- Employee Benefits

A. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to classified and administrative employees.

Health insurance is provided by Anthem Blue Cross and Blue Shield. Monthly premiums for this coverage are \$942.28 for family coverage and \$354.36 for single coverage. The School District pays 90% of both family and single coverage premiums.

B. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. At fiscal year end, up to ten vacation days can be carried over for not more than one fiscal year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave accumulation shall be cumulative up to 260 days. Upon retirement, payment is made to employees at 25 percent up to a maximum of 50 days.

Note 13 – Capital Leases – Lessee Disclosure

The Educational Service Center has entered into capitalized leases for a copier and a fax. Each lease meets the criteria of a capital lease as defined by the Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements.

Future minimum lease payments through 2007 are as follows:

Year	Amount
2005	\$12,562
2006	12,562
2007	12,562
2008	4,187
Total	41,873
Less: Amount Representing Interest	(6,029)
Present Value of Net Minimum Lease Payments	<u>\$35,844</u>

Perry-Hocking Educational Service Center, Ohio

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

The equipment was originally capitalized in the amount of \$58,736. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2004 totaled \$9,553 in the governmental funds.

Property Under Capital Lease	\$58,736
Less: Accumulated Depreciation	<u>(21,808)</u>
Total June 30, 2004	<u><u>\$36,928</u></u>

Note 14 - Long-Term Obligations

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

	Principal Outstanding 06/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities:					
Capital Leases	\$45,397	\$0	\$9,553	\$35,844	\$9,286
Sick Leave Benefits	<u>219,970</u>	<u>0</u>	<u>121,605</u>	<u>98,365</u>	<u>0</u>
Total Governmental Activities					
Long-Term Liabilities	<u><u>\$265,367</u></u>	<u><u>\$0</u></u>	<u><u>\$131,158</u></u>	<u><u>\$134,209</u></u>	<u><u>\$9,286</u></u>

Capital leases will be paid from the General Fund. Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, and the Public Preschool, Miscellaneous State Grants, and Adult Basic Literacy Education Special Revenue Funds.

Note 15 - Jointly Governed Organizations

A. Southeast Ohio Voluntary Educational Consortium

The Southeast Ohio Voluntary Educational Consortium (SEOVEC) is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to its members. Each member pays a fee annually for services provided by SEOVEC.

SEOVEC is governed by a governing board which is selected by the members. Each member has one vote in all matters, and each member's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2004, the Educational Service Center paid \$8,537 to SEOVEC. To obtain financial information write to the Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, 221 North Columbus Road, Athens, Ohio 45701.

B. Tri-County Joint Vocational School District

The Tri-County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City, County, and Educational Service Center Boards within Athens, Hocking, and Perry Counties. The Board possesses its own budgeting and taxing authority.

Perry-Hocking Educational Service Center, Ohio

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

To obtain financial information write to the Tri-County Joint Vocational School District, Laura Carney, Treasurer, 15676 State Route 691, Nelsonville, Ohio, 45764.

C. Mid-East Ohio Joint Vocational School District

The Mid-East Ohio Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of thirteen representatives from the various City, County, and Educational Service Center Boards within Perry, Guernsey, and Muskingum Counties. The Board possesses its own budgeting and taxing authority. To obtain financial information write to the Mid-East Ohio Joint Vocational School District, Cindy Nye, Treasurer, 1965 Chandlersville Road, Zanesville, Ohio, 43701.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools consists of over one hundred school districts and educational service centers in southeastern Ohio. The Coalition is operated by a fourteen member Board which consists of one superintendent from each County elected by the school districts and educational service centers within that County. The Council provides various services for school district and education service center administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for member personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Educational Service Center paid the Coalition of Rural and Appalachian Schools \$900 for services provided during the year.

Note 16 - Insurance Purchasing Pool

A. Ohio School Boards Association Workers' Compensation Group Rating Program

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

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

Note 17 - Contingencies

Grants

The Educational Service Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Perry-Hocking Educational Service Center, Ohio

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

Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

Note 18 - 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..."

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board

Perry-Hocking Educational Service Center
1605 Airport Road
New Lexington, Ohio 43764

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Perry-Hocking Educational Service Center (the Educational Service Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 the financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

Compliance over Other Matters

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

December 17, 2004



**Auditor of State
Betty Montgomery**

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**PERRY-HOCKING EDUCATIONAL SERVICE CENTER
PERRY 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
FEBRUARY 10, 2005**