

Gallia-Vinton Educational Service Center

Gallia County

Regular Audit

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**

Board of Education
Gallia-Vinton Educational Service Center
P.O. Box 178
Rio Grande, OH 45674-0178

We have reviewed the *Independent Auditor's Report* of the Gallia-Vinton Educational Service Center, Gallia County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2003 through 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 Gallia-Vinton Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 23, 2006

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Gallia-Vinton Educational Service Center
Rio Grande, Ohio
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For the Fiscal Year Ended June 30, 2004

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Governing Board
Gallia-Vinton Educational Service Center
P. O. Box 178
Rio Grande, OH 45674-0178

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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 January 27, 2006, on our consideration of the Center'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.

Members of the Governing Board
Gallia-Vinton Educational Service Center
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 8 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations are Component Units*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
January 27, 2006

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Gallia-Vinton Educational Service Center's (the Center) discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the 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 Center's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The Center's assets exceeded its liabilities at June 30, 2004 by \$184,197.
- The Center's net assets of governmental activities decreased \$95,637.
- General revenues accounted for \$335,190 in revenue or 58 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$240,615 or 42 percent of total revenues of \$575,805.
- The Center had \$671,442 in expenses related to governmental activities; \$240,615 of these expenses was offset by program specific charges for services and sales.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Center's financial situation as a whole and also give a detailed view of the Center's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the Center as a whole and present a longer-term view of the Center's 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 the amount of funds available for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column.

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

REPORTING THE CENTER AS A WHOLE

The analysis of the Center as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the Center is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Center's net assets and changes to those assets. This change informs the reader whether the Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the Center's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the Center has only one kind of activity.

- **Governmental Activities.** All of the Center's programs and services are reported here including support services, operation and maintenance of capital assets, and pupil transportation.

REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Center's funds begins on page 11. Fund financial statements provide detailed information about the Center's major fund – not the Center as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Center is meeting legal responsibilities for use of grants. The Center's major funds are the General Fund and the IDEA, Part B Special Revenue Fund.

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

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

THE CENTER AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the Center as a whole. Table 1 provides a summary of the Center's net assets for 2004 compared to 2003.

Table 1
Net Assets

	2004	2003
Assets:		
Current Assets	\$231,010	\$319,271
Capital Assets, Net	8,334	7,688
	239,344	326,959
Total Assets		
Liabilities:		
Current and Other Liabilities	27,855	27,532
Long-Term Liabilities	27,292	19,593
	55,147	47,125
Total Liabilities		
Net Assets:		
Invested in Capital Assets, Net of Related Debt	8,334	7,688
Restricted	11,993	89,075
Unrestricted	163,870	183,071
	\$184,197	\$279,834
Total Net Assets		

Total net assets of the Center as a whole decreased \$95,637.

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

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

Table 2
Change in Net Assets

	2004	2003
Revenues		
Program Revenues:		
Charges for Services	\$ 92,962	\$159,014
Operating Grants & Contributions	147,653	0
Total Program Revenues	240,615	159,014
General Revenues:		
Grants and Entitlements	301,331	304,277
Gifts and Donations	5,543	12,664
Investment Earnings	8,224	7,203
Other	20,092	6,180
Total General Revenues	335,190	330,324
Total Revenues	575,805	489,338
Program Expenses		
Instruction		
Regular	\$23,584	\$0
Special	25,265	0
Support Services		
Pupil	257,177	169,171
Instructional Staff	78,570	12,566
Board of Education	47,778	49,348
Administration	174,317	133,849
Fiscal	37,264	18,946
Operation and Maintenance of Plant	10,308	1,605
Pupil Transportation	1,200	1,095
Central	12,003	18,808
Operation of Non-Instructional	3,976	0
Total Expenses	671,442	405,388
Net Assets at Beginning of Year	279,834	195,884
Increase (Decrease) in Net Assets	(95,637)	83,950
Net Assets at End of Year	\$184,197	\$279,834

Gallia-Vinton Educational Service Center
 Gallia County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004

Governmental Activities

Charges for services and sales comprised 16 percent of revenue for governmental activities, while operating grants and contributions comprised 24 percent of revenue for governmental activities of the Center for fiscal year 2004.

As indicated by governmental program expenses, support services for the benefit of the pupils is emphasized. Support services for pupils comprised 38 percent of governmental program expenses with support services for administration comprising 26 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2004 as compared with 2003. That is, it identifies the cost of these services supported by unrestricted State entitlements.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2004		2003	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$48,849	(\$11,735)	\$0	(\$0)
Support Services	622,593	(419,092)	439,236	(280,222)
Total Expenses	\$671,442	(\$430,827)	\$439,236	(\$280,222)

THE CENTER'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$575,805 and expenditures of \$663,159. The net change in fund balance for the year was most significant in the IDEA, Part B Major Special Revenue Fund.

The fund balance of the IDEA, Part B Major Special Revenue Fund decreased by \$68,269. This decrease was primarily due to the Center receiving less in federal grant revenue in the current year than in the prior year.

Gallia-Vinton Educational Service Center
Gallia County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Center had \$8,334 invested in its capital assets. Table 4 shows the fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

Governmental Activities

	2004	2003
Furniture and Equipment	\$8,334	\$7,688
Totals	\$8,334	\$7,688

Changes in capital assets from the prior year resulted from the addition of two computers. See Note 5 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2004, the Center did not have any outstanding debt obligations.

CURRENT ISSUES

The Center receives approximately 70 percent of its funding from the State of Ohio. Due to changes in the per pupil funding provided by the State, we are receiving less revenue than anticipated; however, the health insurance, personnel, and utility costs continue to increase.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Center's financial condition and to show the Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lily Blevins, Treasurer, Gallia-Vinton Educational Service Center, P.O. Box 178, Rio Grande, Ohio 45674

Gallia Vinton Educational Service Center
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$226,477
Intergovernmental Receivable	4,533
Noncurrent Assets:	
Depreciable Capital Assets, net	<u>8,334</u>
<i>Total Assets</i>	<u>239,344</u>
LIABILITIES:	
Current Liabilities:	
Accrued Wages and Benefits	22,172
Intergovernmental Payable	5,683
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	1,111
Due in More Than One Year	<u>26,181</u>
<i>Total Liabilities</i>	<u>55,147</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	8,334
Restricted for Other Purposes	11,993
Unrestricted	<u>163,870</u>
<i>Total Net Assets</i>	<u><u>\$184,197</u></u>

The notes to the financial statements are an integral part of this statement.

Gallia Vinton Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$23,584	\$0	\$23,013	(\$571)
Special	25,265	0	14,101	(11,164)
Support Services:				
Pupil	257,177	38,507	49,711	(168,959)
Instructional Staff	78,570	2,322	41,638	(34,610)
Board of Education	47,778	10,023	0	(37,755)
Administration	174,317	31,235	16,190	(126,892)
Fiscal	37,264	7,818	0	(29,446)
Operation and Maintenance of Plant	10,308	1,366	0	(8,942)
Pupil Transportation	1,200	252	0	(948)
Central	12,003	1,439	3,000	(7,564)
Operation of Non-Instructional Services	3,976	0	0	(3,976)
<i>Totals</i>	<u>\$671,442</u>	<u>\$92,962</u>	<u>\$147,653</u>	<u>(430,827)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				301,331
Gifts and Donations not Restricted to Specific Programs				5,543
Investment Earnings				8,224
Miscellaneous				20,092
<i>Total General Revenues</i>				<u>335,190</u>
<i>Change in Net Assets</i>				(95,637)
<i>Net Assets Beginning of Year - As Restated, See Note 3</i>				<u>279,834</u>
<i>Net Assets End of Year</i>				<u><u>\$184,197</u></u>

The notes to the financial statements are an integral part of this statement.

Gallia Vinton Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>IDEA, Part B Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$213,382	\$11,731	\$1,364	\$226,477
Interfund Receivable	2,300	0	0	2,300
Intergovernmental Receivable	3,333	0	1,200	4,533
<i>Total Assets</i>	<u>219,015</u>	<u>11,731</u>	<u>2,564</u>	<u>233,310</u>
LIABILITIES:				
Current Liabilities:				
Accrued Wages and Benefits	22,172	0	0	22,172
Interfund Payable	0	0	2,300	2,300
Intergovernmental Payable	3,259	0	0	3,259
<i>Total Liabilities</i>	<u>25,431</u>	<u>0</u>	<u>2,300</u>	<u>27,731</u>
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	36,074	8,428	0	44,502
Unreserved, Undesignated, Reported in:				
General Fund	157,510	0	0	157,510
Special Revenue Funds	0	3,303	264	3,567
<i>Total Fund Balances</i>	<u>193,584</u>	<u>11,731</u>	<u>264</u>	<u>205,579</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$219,015</u>	<u>\$11,731</u>	<u>\$2,564</u>	<u>\$233,310</u>

The notes to the financial statements are an integral part of this statement.

Gallia-Vinton Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances		\$205,579
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,334
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(2,424)
Long-Term Liabilities, including bonds, capital lease obligations, long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(27,292)	
Total		(27,292)
Net Assets of Governmental Activities		\$ 184,197

The notes to the financial statements are an integral part of this statement.

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

	General Fund	IDEA, Part B Fund	All Other Governmental Funds	Total Governmental
REVENUES:				
Intergovernmental	\$301,331	\$86,228	\$61,425	\$448,984
Interest	8,224	0	0	8,224
Gifts and Donations	5,543	0	0	5,543
Customer Sales and Services	92,962	0	0	92,962
Miscellaneous	15,852	0	4,240	20,092
<i>Total Revenues</i>	<u>423,912</u>	<u>86,228</u>	<u>65,665</u>	<u>575,805</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	0	0	23,584	23,584
Special	0	25,265	0	25,265
Support Services:				
Pupils	182,298	55,629	18,000	255,927
Instructional Staff	11,067	51,445	16,058	78,570
Board of Education	47,788	0	0	47,788
Administration	141,152	22,158	3,916	167,226
Fiscal	37,312	0	0	37,312
Operation and Maintenance of Plant	6,512	0	3,796	10,308
Pupil Transportation	1,200	0	0	1,200
Central	6,857	0	5,146	12,003
Operation of Non-Instructional Services	0	0	3,976	3,976
<i>Total Expenditures</i>	<u>434,186</u>	<u>154,497</u>	<u>74,476</u>	<u>663,159</u>
Net Changes in Fund Balance	(10,274)	(68,269)	(8,811)	(87,354)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>203,858</u>	<u>80,000</u>	<u>9,075</u>	<u>292,933</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$193,584</u>	<u>\$11,731</u>	<u>\$264</u>	<u>\$205,579</u>

The notes to the financial statements are an integral part of this statement.

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

Net Change in Fund Balances - Total Governmental Funds (\$87,354)

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 estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	2,736	
Current Year Depreciation	(2,090)	
	646	646

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.

Increase in Compensated Absences	(7,699)	
Increase in Intergovernmental Payable	(1,230)	
	(8,929)	(8,929)

Net Change in Net Assets of Governmental Activities (\$95,637)

The notes to the financial statements are an integral part of this statement.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE ENTITY

Description of the Educational Service Center:

The Gallia-Vinton Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a County Educational Service Center as defined by Section 3311.05 of the Ohio Revised Code. The Center is an administrative entity providing supervision and certain other services to the local school districts located in Gallia and Vinton Counties. It currently operates under a Governing Board form of government consisting of three (3) members elected from Vinton County and four (4) members elected from Gallia County.

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

Reporting Entity:

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations for which the Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2004, the Center had no component units.

The following other jointly governed organizations, which perform activities within the Center's boundaries for the benefit of its residents, are excluded from the accompanying financial statements because the Center is not financially accountable for these entities nor are they fiscally dependent on the Center.

Southeast Ohio Voluntary Education Cooperative (SEOVEC)
Gallia-Jackson-Vinton Joint Vocational School District
Gallia County Local School District

The Center also participates in one public entity risk pool:

Ohio School Boards Association Workers Compensation Group Rating Program

These jointly governed organizations and the public entity risk pool are presented in Note 12 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 more significant of the Center's accounting policies are described below.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Fund Accounting

The Center's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Center functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Funds:

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

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

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

B. Basis of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of governmental activities of the Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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. Revenues which are not classified as program revenues are presented as general revenues of the Center. 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 Center.

Fund Financial Statements:

During the year, the Center segregates transactions related to certain 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 Center at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting:

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

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

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. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources 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 Center, available means expected to be received within 60 days of year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements that specify the year when the resources are required to be used or the fiscal year when use is first permitted. Eligibility requirements also include matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 year-end: interest, tuition, and grants.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The focus of modified accrual basis 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, except for the costs of accumulated unpaid vacation, personal leave and sick leave. They are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

D. Budgetary Data

Upon review by the Center's Governing Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Center at the fund, function, and object level of expenditures, which is their level of budgetary control.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances:

Encumbrance accounting is utilized by the Center for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

Lapsing of Appropriations:

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

E. Cash and Cash Equivalents

Cash received by the Center is deposited into one of several bank accounts with individual fund balance integrity maintained. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All investment earnings accrue to the General Fund except those specifically related to those funds deemed appropriate according to Board of Education policy. Each fund's interest of the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Interest earned amounted to \$8,224 which was recorded in the General Fund. During fiscal year 2004, the Center did not have any investments.

F. Capital Assets and Depreciation

All capital assets of the Center are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$1,000. The 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 reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Furniture and Equipment	5-10 years

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate its employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and the employees the Center has identified as probable of receiving payment in the future. The Center records an accrual for sick leave for all employees with six years or more of service. The accrual amount is based upon accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the Center's severance policy.

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

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

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements 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 Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

J. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances. The unreserved, undesignated portions of fund equity reflected for Governmental Funds are available for use within the specific purpose of those funds.

K. Estimates

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

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

For fiscal year 2004, the District has implemented 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 Center does not have any organizations that qualify as a component unit of the primary government. Therefore, there was no effect on fund balance as a result of implementing GASB Statement 39.

Due to the correction of an error in the previous year’s calculation of compensated absences, the liability account has been adjusted to reflect the correct balance at June 30, 2003.

	06/30/03 Total		06/30/03 Adjusted Total
	<u>Net Assets</u>	<u>Adjustment</u>	<u>Net Assets</u>
Compensated Absences Payable	\$245,986	\$33,848	\$279,834

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 Center has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 certificate of deposits maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Center’s deposits is provided by the Federal Deposit Insurance Corporation, 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.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, 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 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

Deposits:

At fiscal year end, the carrying amount of the Center's deposits was \$226,477 and the bank balance was \$229,595. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Cash and cash equivalents are defined to include investments included within the Center's cash management pool and investments with a maturity date of three months or less.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 5 - CAPITAL ASSETS

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

	Ending Balance 06/30/03	Additions	Deletions	Ending Balance 06/30/04
Governmental Activities				
Capital Assets Being Depreciated				
Furniture and Equipment	12,840	2,736	(3,394)	12,182
Total Capital Assets, Being Depreciated	12,840	2,736	(3,394)	12,182
Less Accumulated Depreciation:				
Furniture and Equipment	(5,152)	(2,090)	3,394	(3,848)
Total Accumulated Depreciation	(5,152)	(2,090)	3,394	(3,848)
Total Capital Assets Being Depreciated, Net	7,688	646	0	8,334
Governmental Activities Capital Assets, Net	\$7,688	\$646	\$0	\$8,334

*Depreciation expense was charged to governmental functions as follows:

Support Services:	
Administration	\$2,090
Total Depreciation Expense	\$2,090

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The Center is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2004, the Center contracted with The Hartford Company for property insurance coverage. The policies include a \$1,000 deductible.

Professional and general liability is protected by the Ohio School Plan with a \$1,000,000 single occurrence limit with a \$3,000,000 aggregate and no deductible.

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

The Center has had no significant reductions in any of its insurance coverage from that maintained in prior years. Additionally, there have been no insurance settlements that have exceeded insurance coverage in any of the past three years.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 6 - RISK MANAGEMENT (Continued)

B. Workers Compensation

For the fiscal year 2004, the Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participant's is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving 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 ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participant's that can meet the GRP's selection criteria. The firm of GatesMcDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

The Center provides health and major medical and prescription drug insurance for all eligible employees through United Health Care. The Center pays monthly premiums of up to \$929.32 for family coverage and up to \$337.93 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

The Center provides life insurance and accidental death and dismemberment insurance to some employees through Medical Life Insurance Group in the amount of \$25,000 for classified employees, \$20,000 for certified employees, and twice the salary amount for each administrator.

Dental coverage is provided through CoreSource Insurance. The Center pays 100% of the premium for certified and non-certified employees. Monthly premiums for the dental coverage are \$39.99 monthly for family and \$18.36 for single coverage.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 5.83 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amounts, by the SERS Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, \$6,935, \$6,725, and \$4,807, respectively; 74 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$1,786 represents the unpaid contribution for fiscal year 2004.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 7 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC of Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The Center was required to contribute 14 percent; 10 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002, were \$20,457, \$24,821, and \$18,525, respectively; 93 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$27,177 made by the Center and \$17,616 made by plan members.

NOTE 8 - POST-EMPLOYMENT BENEFITS

The 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for healthcare coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$1,894 during the 2004 fiscal year.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2004

NOTE 8 - POST-EMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 has been established as \$14,500. For the Center, the amount to fund health care benefits, including surcharge, equaled \$4,314 during the 2004 fiscal year.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care costs of \$303.6 million. SERS had approximately 50,000 participants currently receiving health care benefits.

NOTE 9 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators who are contracted to work 260 days per year earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month and may accumulate up to 15 days per year. Upon retirement, after six (6) years of service, any employee will receive payment for one-fourth of accrued sick leave up to a maximum of fifty (50) days.

NOTE 10 - LONG-TERM OBLIGATIONS

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

	*Restated Balance Outstanding <u>At June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance Outstanding <u>At June 30, 2004</u>	Amount Due in <u>One Year</u>
Compensated Absences	\$19,593	\$27,292	\$19,593	\$27,292	\$1,111

Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employee is paid.

*Refer to Note 3 for the effect on total net assets.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS & PUBLIC ENTITY RISK POOL

A. Jointly Governed Organizations

Southeast Ohio Voluntary Education Cooperative - The Southeast Ohio Voluntary Education Cooperative (SEOVEC) was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 districts and 8 educational service centers. SEOVEC is governed by a governing board, which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to Southeast Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Gallia-Jackson-Vinton Joint Vocational School District - Gallia-Jackson-Vinton Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board comprised of eleven members appointed by the participating schools, which possesses its own budgeting and taxing authority. To obtain financial information write to the Gallia, Jackson, Vinton Joint Vocational School, Donalyn Smith, who serves as Treasurer, at 351 Buckeye Hills Road, Rio Grande, Ohio 45674.

Gallia County Local School District - Gallia County Local School District is a jointly governed organization providing educational services as authorized by State statute and/or federal guidelines. The School District is governed by a locally elected Board of Education comprised of five members. The board controls the financial activity of the School District's eight (8) instructional support facilities and reports to the Ohio Department of Education and the Auditor of State of Ohio. To obtain financial information write to the Gallia County Local School District, Sandra Foster, who serves as Treasurer, at 230 Shawnee Lane, Gallipolis, Ohio 45631.

B. Public Entity Risk Pool

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 Ohio School Boards Association. 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.

NOTE 12 - 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 the earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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.

As of the date of these financial statements, the Center is currently unable to determine what effect if any, this decision will have on its future State funding and on its financial statements.

GALLIA-VINTON EDUCATIONAL SERVICE CENTER
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

NOTE 13 - CONTINGENCIES

Grants:

The Center received 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2004.

Litigation:

The Center currently has a pending lawsuit. However, the Center management believes that this lawsuit will not have a material effect on their financial statements.

NOTE 14 – SUBSEQUENT EVENTS

The Center had a pending lawsuit at the close of this fiscal year which was subsequently settled on July 14, 2004. The lawsuits conclusion resulted in no financial impact to the Center.

BALESTRA, HARR & SCHERER CPAs, INC.

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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 Governing Board
Gallia-Vinton Educational Service Center
P. O. Box 178
Rio Grande, OH 45674-0178

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gallia-Vinton Educational Service Center (the Center), Gallia County, as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 27, 2006, wherein we indicated the Center implemented GASB Statement No. 39. 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 Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 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 and Other Matters

As part of obtaining reasonable assurance about whether the Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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*.

Members of the Governing Board
Gallia-Vinton Educational Service Center
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
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Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

January 27, 2006



**Auditor of State
Betty Montgomery**

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GALLIA VINTON EDUCATIONAL SERVICE CENTER

GALLIA 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
APRIL 4, 2006**