



**EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Sandusky County Educational Service Center  
Sandusky County  
500 West State Street  
Fremont, Ohio 43420-2579

To the Board of Education:

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2006, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

March 8, 2006

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

The discussion and analysis of Sandusky County Educational Service Center's (the "Service Center") financial performance provides an overview of the 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 financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Service Center's financial performance. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data are not available. Future Management Discussion and Analyses will be comparative.

**Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$452,621. This represents a 25% increase from fiscal year 2003.
- General revenues accounted for \$1,601,309, or 29% of all revenues. Program specific revenues, in the form of charges for services and operating grants and contributions accounted for \$3,926,061 or 71% of all revenues.
- The Service Center had \$5,074,749 in expenses related to governmental activities; \$3,926,061 was offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities of \$1,601,309 were not adequate to provide for these programs.
- The General fund, the Service Center's only major fund, had \$4,335,761 in revenues, or 95% of total governmental revenues and \$4,873,261 in expenditures, or 95% of total governmental expenditures. The General fund's balance decreased \$537,500 during 2004.

**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 Sandusky County 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.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Service Center, presenting both an aggregate view of the 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 present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of Sandusky County Educational Service Center, the general fund is the most significant fund and the only governmental fund reported as a major fund.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

**Reporting the Service Center as a Whole**

Statement of Net Assets and Statement of Activities

While these statements contain information about the many funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and helps answer the question, "How did we do financially during 2004?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting method 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 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 Service Center as a whole, the financial position of the 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 Service Center's facility conditions, required educational programs, locally requested programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the Service Centers' activities are considered to be all governmental activities.

Governmental Activities - All of the Service Center's programs and services are reported here including, but not limited to, instruction and support services.

**Reporting the Service Center's Most Significant Funds**

Fund Financial Statements

The analysis of the Service Center's major fund begins on page 8. The Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's only major governmental fund is the General fund. Data from the other nonmajor funds are combined into a single, aggregated presentation.

All of the Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end 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 readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Service 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 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.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government – wide and fund financial statements.

**The Service Center as a Whole**

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

Table 1 provides a summary of the Service Center's net assets for 2004.

Table 1 Net Assets		Governmental <u>Activities</u> <u>2004</u>
<b>Assets</b>		
Current and other assets		\$ 2,904,412
Depreciable capital assets, net		<u>102,313</u>
Total assets		3,006,725
<b>Liabilities</b>		
Current liabilities		633,118
Long-term liabilities		<u>101,207</u>
Total liabilities		734,325
<b>Net Assets</b>		
Invested in capital assets, net of related debt		102,313
Restricted		55,986
Unrestricted		<u>2,114,101</u>
Total net assets		<u>\$ 2,272,400</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Service Center's assets exceeded liabilities by \$2,272,400. Net assets invested in capital assets, net of related debt to acquire the assets at June 30, 2004, were \$102,313. These net assets are used to provide services to the students and are not available for future spending. A portion of the Service Center's net assets, \$55,986, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,114,101 may be used to meet the Service Center's ongoing obligations to the students and creditors.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004. Since this is the first year the Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In fiscal year 2005, when prior year fiscal information is available, a comparative analysis of government-wide data will be presented.

Table 2  
Changes in Net Assets

	Governmental Activities
<b>Revenues</b>	
Program Revenues	
Charges for services	\$ 3,706,533
Operating grants and contributions	219,528
General Revenues	
Grants and entitlements	1,549,120
Investment earnings	7,352
Miscellaneous	44,837
Total revenues	5,527,370
Program expenses	
Instruction	
Regular	237,470
Special	2,685,869
Support services	
Pupils	1,002,911
Instructional staff	686,898
Board of education	31,282
Administration	193,694
Fiscal	138,636
Pupil Transportation	81,181
Central	16,808
Total expenses	5,074,749
Changes in net assets	\$ 452,621

**Governmental Activities**

A review of Table 2 shows that the total cost of instructional services was \$2,923,339, or 58% of the Service Center's total expenses. Instructional expenses include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil. All of these expenses were funded by charges to member school districts.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Pupil service and instructional staff expenses include the activities involved in assisting staff with the content and process of teaching to pupils. This is a major emphasis of the Service Center as the total expenses were \$1,689,809, or 33% as compared to the total expenses of the Service Center.

The board of education, administration and fiscal classifications reflect costs associated with establishing and administering Service Center operational policies and financial operations. Combined, such expenses totaled \$363,612, or 7% of all Service Center expenses.

Pupil transportation includes activities involved with the conveyance of students to and from school, as provided by state law.

The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. Table 3 indicates the total cost of services and the net cost of services. Comparisons to fiscal year 2003 have not been made since they are not available due to the initial implementation of GASB Statement No. 34.

Table 3  
Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
<b>Program Expenses</b>		
Instruction		
Regular	\$ 237,470	\$ 147,108
Special	2,685,869	(1,108,576)
Support services:		
Pupils	1,002,911	999,012
Instructional staff	686,898	661,543
Board of education	31,282	31,282
Administration	193,694	193,694
Fiscal	138,636	138,636
Pupil transportation	81,181	81,181
Central	16,808	4,808
Total expenses	<u>\$ 5,074,749</u>	<u>\$ 1,148,688</u>

At first glance, the net cost of services would indicate the Service Center did not receive resources adequate to cover the costs of programs offered. Under the Service Center's present method of recording revenues, there is insufficient detail to allocate general revenues against the instructional program and the other activities of the Service Center. The total net cost of services of \$1,148,688 was supported by general revenues. It is the intention of the Board of Education not to over charge the districts served and to utilize the general revenues to offset the cost of programs to member districts.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

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

**The Service Center's Funds**

The Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues and beginning fund balances totaled \$6,475,727 and expenditures were \$5,138,108, which indicates the Service Center was able to meet current costs.

Fund balance in the General fund decreased by \$537,500 while other governmental funds decreased \$24,157. The decrease in other governmental funds is not considered significant because beginning balances were able to compensate for this negative net change. The General fund balance decrease was largely attributed to a reduction of state and federal funds received by the Service Center in 2004 as compared to 2003.

**General Fund Budgeting Highlights**

The Service Center's budget is prepared according to the requirements specified by the Board of Education and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General fund which is budgeted at the object level. Any budget revisions are presented to the Board of Education for approval.

For the General Fund, revenues received during the year closely reflected originally anticipated amounts. Therefore, no budget modifications were considered necessary.

Expenditures were budgeted at \$5,571,002 while actual expenditures were only \$4,850,462. The difference of \$720,540 is largely the result of conservative budgeting practices for salaries and benefits. Such expenses are directly driven by the demand for Service Center services, which are often unknown during the budgeting process.

Although the General fund's actual revenues and other financing sources did not meet expectations, there was no significant decrease in fund balance. The Board believes this was a good financial position for the fiscal year ended June 30, 2004.

**Capital Assets**

At the end of fiscal year 2004, the Service Center had \$102,313 invested in capital assets. Table 4 reflects fiscal year 2004 balances compared to fiscal year 2003:

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

Table 4  
Capital Assets at June 30, 2004  
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Furniture, fixtures and equipment	<u>\$ 102,313</u>	<u>\$ 123,448</u>
Total capital assets	<u>\$ 102,313</u>	<u>\$ 123,448</u>

Most capital expenditures made by the Service Center during the year were related to the acquisition of computer equipment. The Service Center owns no land, buildings or vehicles. The net decrease in capital assets is due to depreciation expense of \$40,437 exceeding current year acquisitions of \$19,302. See Note 7 to the basic financial statements for detail on the Service Center's capital assets.

**Debt**

The Service Center had no debt outstanding as of June 30, 2004. All other long-term obligations are related to compensated absences. See Note 11 to the basic financial statements for detail on the Service Center's long-term obligations.

**Current Issues Affecting Financial Condition**

As the preceding information shows, the Service Center relies heavily upon grants, Special Education billings from the local districts, and state foundation payments. State funding is predicted to be flat for the next several years impacting the Service Center and its districts.

**Contacting the Service Center's Financial Management**

This financial report is designed to provide our citizens and customers with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sandusky County Educational Service Center, Treasurer/CFO, Office at 500 West State Street, Fremont, Ohio 43420-2579.

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**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	Governmental Activities
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 1,462,198
Receivables:	
Intergovernmental	1,392,992
Accrued interest	651
Prepaid items	48,571
Capital assets:	
Depreciable capital assets, net	102,313
<i>Total assets</i>	3,006,725
<b>Liabilities:</b>	
Accounts payable	2,454
Accrued wages	516,734
Intergovernmental payable	113,930
Long-term liabilities:	
Due within one year	25,041
Due in more than one year	76,166
<i>Total liabilities</i>	734,325
<b>Net assets:</b>	
Invested in capital assets, net of related debt	102,313
Restricted for:	
Capital projects	1,106
Other purposes	54,880
Unrestricted	2,114,101
<i>Total net assets</i>	\$ 2,272,400

See accompanying notes to the basic financial statements.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

**STATEMENT OF ACTIVITIES  
JUNE 30, 2004**

	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
Expenses	Charges for Services	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities:</b>			
Instruction:			
Regular	\$ 237,470		\$ (147,108)
Special	2,685,869	\$ 3,684,103	1,108,576
Support services:			
Pupils	1,002,911		(999,012)
Instructional staff	686,898	22,430	(661,543)
Board of education	31,282		(31,282)
Administration	193,694		(193,694)
Fiscal	138,636		(138,636)
Pupil transportation	81,181		(81,181)
Central	16,808	12,000	(4,808)
<i>Total governmental activities</i>	<u>\$ 5,074,749</u>	<u>\$ 3,706,533</u>	<u>\$ 219,528</u>
<b>General Revenues:</b>			
Grants and entitlements not restricted to specific programs			1,549,120
Investment earnings			7,352
Miscellaneous			44,837
<i>Total general revenues</i>			1,601,309
<i>Change in net assets</i>			452,621
Net assets beginning of year - (Restated)			1,819,779
<i>Net assets end of year</i>			\$ 2,272,400

See accompanying notes to the basic financial statements.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 1,412,371	\$ 49,827	\$ 1,462,198
Receivables:			
Intergovernmental	1,359,267	33,725	1,392,992
Accrued interest	651		651
Prepaid items	48,571		48,571
<i>Total assets</i>	\$ 2,820,860	\$ 83,552	\$ 2,904,412
<b>Liabilities:</b>			
Accounts payable	\$ 1,591	\$ 863	\$ 2,454
Accrued wages	505,173	11,561	516,734
Intergovernmental payable	94,514	2,172	96,686
Deferred revenue	950,919		950,919
<i>Total liabilities</i>	1,552,197	14,596	1,566,793
<b>Fund balances:</b>			
Reserved for encumbrances	2,852	58	2,910
Reserved for prepaids	48,571		48,571
Unreserved,			
Undesignated, reported in:			
General fund	1,217,240		1,217,240
Special revenue funds		67,792	67,792
Capital projects funds		1,106	1,106
<i>Total fund balances</i>	1,268,663	68,956	1,337,619
<i>Total liabilities and fund balances</i>	\$ 2,820,860	\$ 83,552	

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.	102,313
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Intergovernmental receivable	950,919
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and are therefore not reported in the funds.	(17,244)
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(101,207)
<i>Net assets of governmental activities</i>	\$ 2,272,400

See accompanying notes to the basic financial statements.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Intergovernmental	\$ 1,549,121	\$ 217,761	\$ 1,766,882
Interest	7,352	-	7,352
Tuition and fees	2,701,664	-	2,701,664
Gifts and donations	1,266	500	1,766
Customer services	31,521	22,304	53,825
Miscellaneous	44,837	125	44,962
<i>Total revenues</i>	4,335,761	240,690	4,576,451
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	132,094	106,068	238,162
Special	2,643,161	73,985	2,717,146
Support services:			
Pupils	1,012,919	-	1,012,919
Instructional staff	638,898	60,506	699,404
Board of education	28,521	-	28,521
Administration	189,959	-	189,959
Fiscal	138,429	-	138,429
Pupil transportation	81,181	-	81,181
Central	-	13,085	13,085
Capital outlay	8,099	11,203	19,302
<i>Total expenditures</i>	4,873,261	264,847	5,138,108
<i>Excess of expenditures over revenues</i>	(537,500)	(24,157)	(561,657)
Fund balances at beginning of year	1,806,163	93,113	1,899,276
<i>Fund balances at end of year</i>	\$ 1,268,663	\$ 68,956	\$ 1,337,619

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

**Net change in fund balances - total governmental funds** \$ (561,657)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital asset additions	\$ 19,302	
Depreciation expense	(40,437)	
Excess of capital outlay over depreciation expense		(21,135)

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

Tuition and fees	950,919
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Some items 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. These activities consist of:

Decrease in compensated absences	\$ 10,388	
Decrease in pension obligation	74,106	
Total additional expenditures		84,494

*Change in net assets of governmental activities* \$ 452,621

See accompanying notes to the basic financial statements.

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER  
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)-GENERAL FUND  
FOR FISCAL YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Intergovernmental	\$ 1,428,027	\$ 1,428,027	\$ 1,549,121	\$ 121,094
Interest	26,000	26,000	7,352	(18,648)
Tuition and fees	3,357,926	3,357,926	3,126,390	(231,536)
Gifts and donations	1,266	1,266	1,266	-
Customer services	26,500	26,500	31,521	5,021
Miscellaneous	8,000	8,000	44,232	36,232
<i>Total revenues</i>	<u>4,847,719</u>	<u>4,847,719</u>	<u>4,759,882</u>	<u>(87,837)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	168,003	172,621	132,377	40,244
Special	2,921,733	2,951,079	2,630,526	320,553
Support services:				
Pupils	1,086,690	1,079,144	1,003,293	75,851
Instructional staff	712,775	712,775	643,845	68,930
Board of education	63,117	63,327	29,382	33,945
Administration	252,471	252,472	191,422	61,050
Fiscal	245,392	245,391	138,567	106,824
Pupil transportation	86,785	94,193	81,050	13,143
<i>Total expenditures</i>	<u>5,536,966</u>	<u>5,571,002</u>	<u>4,850,462</u>	<u>720,540</u>
<i>Excess of expenditures over revenues</i>	<u>(689,247)</u>	<u>(723,283)</u>	<u>(90,580)</u>	<u>632,703</u>
<b>Other financing sources:</b>				
Refund of prior year expenditures	-	-	663	663
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>663</u>	<u>663</u>
<i>Net change in fund balance</i>	(689,247)	(723,283)	(89,917)	633,366
Fund balance at beginning of year	1,475,428	1,475,428	1,475,428	-
Prior year encumbrances appropriated	22,418	22,418	22,418	-
<i>Fund balance at end of year</i>	<u>\$ 808,599</u>	<u>\$ 774,563</u>	<u>\$ 1,407,929</u>	<u>\$ 633,366</u>

See accompanying notes to the basic financial statements.

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**SANDUSKY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

**NOTE 1 - DESCRIPTION OF THE SERVICE CENTER**

The Sandusky County Educational Service Center (the "Service 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 Service Center is a County Educational Service Center as defined by Section 3313.01 of the Ohio Revised Code. The Service Center operates under an elected Board of Education (5 members). Board members must be residents of the local school systems located in Sandusky County. The Service Center provides educational services to the local school systems in Sandusky County as well as nine city school districts, which have a contractual relationship with the Service Center.

The Service Center employed 56 certificated employees and 115 non-certificated employees at year end.

Reporting Entity

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

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organizations' governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the 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 Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt or the levying of taxes. The Service Center does not have any component units.

The Service Center is associated with the Northern Ohio Educational Computer Association and the Northwestern Ohio Educational Research Council, which are defined as jointly governed organizations. A jointly governed organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 12.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 amounts paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Service 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 Service Center.

Fund Financial Statements

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

**B. Fund Accounting**

The 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. All funds of the Service Center are considered governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the Service Center are financed. Governmental funds focus 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 Service Center has one major governmental fund as defined by GASB Statement No. 34:

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

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

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

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

Proprietary Funds

Proprietary funds are used to account for the Service Center's ongoing activities that are similar to those found in the private sector. The Service Center has no proprietary funds.

Fiduciary Funds

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

**C. Measurement Focus**

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Service Center are included on the statement of 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 reflects 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 fund financial statements for governmental funds.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases 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. 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 Service Center, available means expected to be received within 60 days of year-end.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Non-exchange transactions, in which the Service 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, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the 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: interest, tuition, fees, grants, and customer services.

Deferred Revenue

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

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

Expenditures/Expenses

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 the governmental funds.

**E. Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

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

The 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, function, and object level within the General Fund and the fund level for all other funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all other funds.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

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

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the Service Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements. During the fiscal year, investments were limited to overnight repurchase agreements. Except for non-participating investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market price. Non-participating investment contracts such as repurchase agreements are reported at cost. Under existing Ohio statutes, all investment earnings accrue to the General Fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

Interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$7,352, which includes \$426 assigned from other Service Center funds.

For purposes of the presentation on the basic financial statements, 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of \$500. The 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 capitalized.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, fixtures and equipment	5 - 10 years

**I. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are imposed by creditors, contributors, grantors, laws of other governments, or by enabling legislation. There were no assets restricted as of fiscal year end.

**J. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets. There were no interfund loans outstanding as of fiscal year end.

**K. Compensated Absences**

Vacation 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 Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time 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 termination benefits and those the 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 Service Center's termination policy.

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

**L. 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. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

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

**M. Net assets**

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

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

**N. Fund Balance Reserves**

The Service Center records reservations of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances and prepayments.

**O. Interfund transactions**

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

**P. Estimates**

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

**Q. Extraordinary and special items**

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

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

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND ACCOUNTING CHANGES**

**A. Changes in accounting principles**

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

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

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures.

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

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in GASB Statement No. 34.

**B. Accounting Changes**

The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the Service Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND ACCOUNTING CHANGES – (Continued)**

	General	Other Governmental Funds	Total
Fund Balance June 30, 2003	\$ 1,754,886	\$ 93,113	\$ 1,847,999
Prepaid items	44,642	-	44,642
Compensated absences - Interpretation No. 6	6,635	-	6,635
Adjusted fund balances, June 30, 2003	\$ 1,806,163	\$ 93,113	1,899,276

GASB Statement No. 34 Adjustments:

Capital assets	123,448
Long-term liabilities	(111,595)
Intergovernmental payable	(91,350)
Governmental activities net assets, June 30, 2003	\$ 1,819,779

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the 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 is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis), presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues and Other Financing Sources 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 for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (537,500)
Revenue accruals	424,784
Expenditure accruals	27,242
Encumbrances (Budget Basis)	
Outstanding at year end	(4,443)
Budget Basis	\$ (89,917)

**NOTE 5 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the 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 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 pass book accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury Bills, Notes, Bonds, or any other obligations 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 5 - DEPOSITS AND INVESTMENTS – (Continued)**

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period of one hundred eighty days 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.

Protection of the Service Center's deposits may be 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.

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 Service Center and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: The carrying amount of the Service Center's deposits was \$853,106, and the bank balance was \$873,120. Of the bank balance, \$200,000 was covered by federal depository insurance. \$673,120 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the Service Center's name.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the Service Center's investments be classified in categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the Service Center, or its agent, in the Service Center's name, holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's, trust department or agent in the 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 Service Center's name.

The Service Center's investment at year-end consisted of an overnight repurchase agreement. It is a Category 3 investment with a fair value of \$609,092.

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

**NOTE 5 - DEPOSITS AND INVESTMENTS – (Continued)**

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 1,462,198	\$ -
Investments of the Cash Management Pool:		
Repurchase Agreement	(609,092)	609,092
GASB Statement No. 3	\$ 853,106	\$ 609,092

**NOTE 6 - RECEIVABLES**

Receivables at year-end consisted of intergovernmental grants and entitlements and charges for services provided to other governments. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General fund	\$ 1,359,267
<u>Special revenue funds</u>	
Rotary Special Services	\$ 1,781
Alternative Schools	19,402
EHA Preschool Grant	12,542
Total intergovernmental receivables	\$ 1,392,992

**NOTE 7 - CAPITAL ASSETS**

The capital asset balances of the governmental activities have been restated due to the reporting of accumulated depreciation of all assets in accordance with GASB statement No. 34.

	<u>Balance</u> <u>June 30, 2003</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>June 30, 2003</u>
Governmental Activities			
Furniture, fixtures and equipment	\$ 441,673	\$ 6,153	\$ 447,826
Less: Accumulated depreciation	-	(324,378)	(324,378)
Governmental Activities Capital Assets, Net	\$ 441,673	\$ (318,225)	\$ 123,448

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - CAPITAL ASSETS – (Continued)**

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

Governmental Activities	Restated Balance <u>June 30, 2003</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2004</u>
Capital assets, being depreciated:				
Furniture, fixtures and equipment	\$ 447,826	\$ 19,302		\$ 467,128
Less: Accumulated depreciation				
Furniture, fixtures and equipment	(324,378)	(40,437)		(364,815)
Governmental activities capital assets, net	<u>\$ 123,448</u>	<u>\$ (21,135)</u>		<u>\$ 102,313</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 2,733
Special	15,658
Support services:	
Pupils	2,484
Instructional staff	4,974
Board of education	2,761
Administration	7,522
Fiscal	582
Central	<u>3,723</u>
<i>Total Depreciation Expense</i>	<u>\$ 40,437</u>

**NOTE 8 - RISK MANAGEMENT**

The 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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 8 - RISK MANAGEMENT – (Continued)**

The Service Center has contracted with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) to provide medical/surgical and dental insurance for its employees and their covered dependents. The OME-RESA is a shared risk pool comprised of multiple entities. The Service Center pays monthly contributions that are placed in a fund from which eligible claims are paid for employees and their covered dependents. Claims are paid for all participants regardless of claims flow. In the event of termination, all participating entities' claims would be paid without regard to their individual account balances. The OME-RESA Board of Directors has authority to return monies to an exiting entity subsequent to the settlement of all claims and expenses.

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

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. 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 Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$129,933, \$161,356, and \$159,494, respectively; 79% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004, in the amount of \$27,409, is recorded as an intergovernmental payable.

**B. State Teachers Retirement System**

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

**SANDUSKY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

**NOTE 9 - DEFINED BENEFIT PENSION PLANS – (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$352,553, \$319,659, and \$332,688, respectively; 88 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$43,990, representing the unpaid contribution for fiscal year 2004, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2004 were \$5,554 made by the Service Center and \$13,494 made by the plan members.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS) and retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

**SANDUSKY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

**NOTE 10 - POSTEMPLOYMENT BENEFITS – (Continued)**

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The retirement board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the Service Center this amount equaled \$27,119 during the 2004 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, the net health care costs paid by the STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply. For this fiscal year, employer contributions to fund health care benefits were 4.91 percent of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14 percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the Service Center, the amount of employer contributions used to fund health care equaled \$87,428, which includes a surcharge of \$17,244 during the 2004 fiscal year.

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

**NOTE 11 - LONG TERM OBLIGATIONS**

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

<u>Governmental Activities</u>	<u>Restated Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Amounts due within one year</u>
Compensated absences	\$ 111,595	\$ 25,246	\$ (35,634)	\$ 101,207	\$ 25,041

The Service Center's beginning long-term compensated absences liability increased \$6,635 from \$104,960 to \$111,595. This change was caused by the net effect of implementing GASB Interpretation No. 6. The Service Center had no other long-term liabilities at year end. Compensated absences will be paid from the fund from which the employee is paid.

**SANDUSKY EDUCATIONAL SERVICE CENTER  
SANDUSKY COUNTY**

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

**NOTE 11 - LONG TERM OBLIGATIONS – (Continued)**

Pension obligations of \$17,308 at June 30, 2004, are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the Statement of Net Assets. The effect on the total governmental activities long-term obligations at July 1, 2004, was a decrease of \$10,673 from \$122,268 to \$111,595.

**NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northern Ohio Educational Computer Association**

The Northern Ohio Educational Computer Association (NOECA) is the computer service organization or Data Acquisition Site (DAS) used by the Service Center. NOECA is an association of public school districts and county educational service centers in a geographic area determined by the Ohio Department of Education. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the members. All service centers and school districts in the consortium are required to pay fees, charges, and assessments as charged.

A board made up of superintendents from all of the participating school districts and service centers governs NOECA. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The Service Center does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to NOECA are made from the General fund. During fiscal year 2004, the Service Center contributed \$12,005 to NOECA. Financial information can be obtained from Betty Schwiefert, Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**B. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. The Service Center paid \$180 for these services to NOERC in fiscal year 2004. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, OH 44805.

**NOTE 13 - CONTINGENCIES**

**Grants**

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

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Sandusky County Educational Service Center  
Sandusky County  
500 West State Street  
Fremont, Ohio 43420-2579

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sandusky County Educational Service Center, Sandusky County (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 8, 2006, in which we noted the Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated March 8, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Service Center's management dated March 8, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Board of Education. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

March 8, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER**

**SANDUSKY 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  
MARCH 30, 2006**