

**CLERMONT COUNTY
EDUCATIONAL SERVICE CENTER**

Clermont County, Ohio

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 Trustees
Clermont County Educational Service Center

We have reviewed the Independent Auditor's Report of the Clermont County Educational Service Center, Clermont 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 Clermont County Educational Service Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 23, 2005

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Clermont County Educational Service Center
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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 Board
Clermont County Educational Service Center
2400 Clermont Center Drive, Suite 202
Batavia, Ohio 45103

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clermont County Educational Service Center (the Center), Clermont 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. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2005, 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.

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 to the basic financial statements, the District implemented Governmental Accounting Standards Board (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*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

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.

February 15, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Clermont County Educational Service Center's (the Center) discussion and analysis of the annual financial report provides a review of the Center's 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 basic 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 \$2,384,147.
- The Center's net assets of governmental activities decreased \$238,166.
- General revenues accounted for \$1,575,874 in revenue or 11 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$12,969,287 or 89 percent of total revenues of \$14,545,161.
- The Center had \$14,783,327 in expenses related to governmental activities; \$12,969,287 of these expenses was offset by program specific charges for services and sales and operating grants and contributions.

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 Clermont County Educational Service 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. Major 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.

Clermont County Educational Service Center
Clermont 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 instruction and support services.

REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the Center's funds begins on page 7. 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 Clermont County Educational Service Center's major fund is the General 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.

Clermont County Educational Service Center
Clermont 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	\$4,950,491	\$4,466,119
Capital Assets, Net	181,135	242,239
Total Assets	5,131,626	4,708,358
Liabilities:		
Current and Other Liabilities	2,334,574	1,691,264
Long-Term Liabilities	412,905	394,781
Total Liabilities	2,747,479	2,086,045
Net Assets:		
Invested in Capital Assets, Net of Related Debt	181,135	242,239
Restricted	204,275	92,197
Unrestricted	1,998,737	2,287,877
Total Net Assets	\$2,384,147	\$2,622,313

Total net assets of the Center as a whole decreased \$238,166.

Clermont County Educational Service Center
Clermont 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. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 are not available.

Table 2
Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$11,601,846
Operating Grants & Contributions	1,376,441
Total Program Revenues	12,969,287
General Revenues:	
Grants and Entitlements	1,239,396
Gifts and Donations	70,463
Investment Earnings	36,056
Miscellaneous	229,959
Total General Revenues	1,575,874
Total Revenues	14,545,161
Program Expenses	
Instruction	
Regular	\$368,995
Special	5,459,255
Adult/Continuing	149,282
Support Services	
Pupil	3,328,618
Instructional Staff	4,622,440
Board of Education	149,883
Administration	425,565
Fiscal	203,865
Central	24,257
Operation of Non-Instructional Services	51,167
Total Expenses	14,783,327
Decrease in Net Assets	(238,166)
Net Assets at Beginning of Year	2,622,313
Net Assets at End of Year	\$2,384,147

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

Governmental Activities

Charges for services and sales comprised 79 percent of revenue for governmental activities, while operating grants and contributions comprised 9 percent of revenue for governmental activities of the Clermont County Educational Service Center for fiscal year 2004.

As indicated by governmental program expenses, instruction and support services for the benefit of the pupils are emphasized. Support services for pupils comprised 23 percent of governmental program expenses with support services for Instructional Staff comprising 31 percent of governmental expenses and special instruction comprising 37 percent of government 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. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues. Comparisons to 2003 have not been made since they are not available.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2004	
	Total Cost of Services	Net Cost of Services
Instruction	\$5,977,532	(\$300,412)
Support Services	8,754,628	(1,523,362)
Operation of Non-Instructional Services	51,167	9,734
Total Expenses	\$14,783,327	(\$1,814,040)

THE CENTER'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14,429,373 and expenditures of \$14,469,494. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased by \$38,896. This decrease was primarily due to the Center having higher expenditures than in the prior year.

Clermont County Educational Service Center
Clermont 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 \$181,135 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	\$181,135	\$242,239
Totals	<u>\$181,135</u>	<u>\$242,239</u>

Changes in capital assets from the prior year resulted from the addition of a computer, a copier and depreciation expense. See Note 6 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.

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 Al Fleckinger, Treasurer, Clermont County Educational Service Center, 2400 Clermont Center Drive, Suite 202, Batavia, Ohio 45103.

Clermont County Educational Service Center
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,857,487
Accounts Receivable	959,312
Intergovernmental Receivable	133,692
Noncurrent Assets:	
Depreciable Capital Assets, net	<u>181,135</u>
<i>Total Assets</i>	<u><u>5,131,626</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	366,614
Accrued Wages and Benefits	1,320,820
Intergovernmental Payable	647,140
Long-Term Liabilities:	
Due Within One Year	26,646
Due in More Than One Year	<u>386,259</u>
<i>Total Liabilities</i>	<u><u>2,747,479</u></u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	181,135
Restricted for Capital Outlay	127,824
Restricted for Other Purposes	76,451
Unrestricted	<u>1,998,737</u>
<i>Total Net Assets</i>	<u><u>\$ 2,384,147</u></u>

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

Clermont County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 368,995	\$ 250,158	\$ 45,966	\$ (72,871)
Special	5,459,255	4,433,077	786,037	(240,141)
Adult/Continuing	149,282	36,405	125,477	12,600
Support Services:				
Pupils	3,328,618	2,713,036	-	(615,582)
Instructional Staff	4,622,440	3,547,981	350,543	(723,916)
Board of Education	149,883	86,909	-	(62,974)
Administration	425,565	346,863	-	(78,702)
Fiscal	203,865	166,163	-	(37,702)
Central	24,257	19,771	-	(4,486)
Operation of Non-Instructional Services	51,167	1,483	59,418	9,734
<i>Total Governmental Activities</i>	<u>\$ 14,783,327</u>	<u>\$ 11,601,846</u>	<u>\$ 1,367,441</u>	<u>(1,814,040)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				1,239,396
Gifts and Donations				70,463
Investment Earnings				36,056
Miscellaneous				229,959
<i>Total General Revenues</i>				<u>1,575,874</u>
				(238,166)
<i>Change in Net Assets</i>				
<i>Net Assets Beginning of Year (As Restated - See Note 3)</i>				<u>2,622,313</u>
<i>Net Assets End of Year</i>				<u>\$ 2,384,147</u>

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

Clermont County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 3,744,291	\$ 113,196	\$ 3,857,487
Accounts Receivable	959,312	-	959,312
Interfund Receivable	4,560	-	4,560
Intergovernmental Receivable	3,315	130,377	133,692
<i>Total Assets</i>	<u>\$ 4,711,478</u>	<u>\$ 243,573</u>	<u>\$ 4,955,051</u>
LIABILITIES:			
Accounts Payable	366,614	-	366,614
Accrued Wages and Benefits	1,314,445	6,375	1,320,820
Interfund Payable	-	4,560	4,560
Intergovernmental Payable	396,838	15,697	412,535
Deferred Revenue	-	115,788	115,788
<i>Total Liabilities</i>	<u>2,077,897</u>	<u>142,420</u>	<u>2,220,317</u>
Equity:			
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	41,169	21,500	62,669
Unreserved, Undesignated, Reported in:			
General Fund	2,592,412	-	2,592,412
Special Revenue Funds	-	3,199	3,199
Capital Projects Funds	-	76,454	76,454
<i>Total Fund Balances</i>	<u>2,633,581</u>	<u>101,153</u>	<u>2,734,734</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,711,478</u>	<u>\$ 243,573</u>	<u>\$ 4,955,051</u>

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

Clermont County Educational Service Center
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances \$ 2,734,734

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. 181,135

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Intergovernmental	115,788	
Total		115,788

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds (234,605)

Long-Term Liabilities, including 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	(412,905)	
Total		(412,905)

Net Assets of Governmental Activities \$ 2,384,147

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

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

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Intergovernmental	\$ 2,003,918	\$ 487,131	\$ 2,491,049
Interest	36,056	-	36,056
Tuition and Fees	11,362,949	-	11,362,949
Gifts and Donations	70,463	-	70,463
Customer Sales and Services	226,127	12,770	238,897
Miscellaneous	<u>229,959</u>	<u>-</u>	<u>229,959</u>
<i>Total Revenues</i>	<u>13,929,472</u>	<u>499,901</u>	<u>14,429,373</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	302,634	39,583	342,217
Special	5,336,551	18,527	5,355,078
Adult/Continuing	40,822	108,053	148,875
Support Services:			
Pupils	3,249,419	-	3,249,419
Instructional Staff	4,267,147	283,796	4,550,943
Board of Education	106,628	-	106,628
Administration	428,600	-	428,600
Fiscal	212,485	-	212,485
Central	24,082	-	24,082
Operation of Non-Instructional Services	<u>-</u>	<u>51,167</u>	<u>51,167</u>
<i>Total Expenditures</i>	<u>13,968,368</u>	<u>501,126</u>	<u>14,469,494</u>
<i>Net Change in Fund Balances</i>	(38,896)	(1,225)	(40,121)
<i>Fund Balance at Beginning of Year (As Restated - See Note 3)</i>	<u>2,672,477</u>	<u>102,378</u>	<u>2,774,855</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,633,581</u>	<u>\$ 101,153</u>	<u>\$ 2,734,734</u>

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

Clermont County 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 \$ (40,121)

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	18,274	
Current Year Depreciation	(79,378)	
Total		(61,104)

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

Intergovernmental	115,788	
Total		115,788

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	(18,124)	
Increase in Intergovernmental Payable	(234,605)	
Total		(252,729)

Net Change in Net Assets of Governmental Activities \$ (238,166)

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

Clermont County Educational Service Center
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Intergovernmental	2,003,249	\$ 2,003,249	\$ 2,003,249	\$0
Interest	36,056	36,056	36,056	0
Tuition and Fees	11,316,692	11,316,692	11,316,692	0
Gifts and Donations	70,463	70,463	70,463	0
Customer Sales and Services	226,127	226,127	226,127	0
Miscellaneous	229,959	229,959	229,959	0
Total Revenues	<u>13,882,546</u>	<u>13,882,546</u>	<u>13,882,546</u>	<u>0</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	304,662	304,662	304,662	0
Special	5,242,016	5,242,016	5,242,016	0
Adult/Continuing	41,511	41,511	41,511	0
Support Services:				
Pupils	3,183,161	3,183,161	3,183,161	0
Instructional Staff	4,161,871	4,161,871	4,161,871	0
Board of Education	120,210	120,210	120,210	0
Administration	432,067	432,067	432,067	0
Fiscal	223,507	223,507	223,507	0
Central	23,785	23,785	23,785	0
Total Expenditures	<u>13,732,790</u>	<u>13,732,790</u>	<u>13,732,790</u>	<u>0</u>
Net Change in Fund Balances	149,756	149,756	149,756	0
Fund Balance at Beginning of Year	3,506,446	3,506,446	3,506,446	0
Prior Year Encumbrances Appropriated	51,480	51,480	51,480	0
Fund Balance at End of Year	<u>\$ 3,707,682</u>	<u>\$ 3,707,682</u>	<u>\$ 3,707,682</u>	<u>\$0</u>

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

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY

The financial statements of the Clermont County Educational Service Center (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 Center's significant accounting policies are described below:

Description of the Entity:

The Center is a Governing Board of an Educational Service Center as defined by Am. Sub. H.B. 117, 121st General Assembly. The Center is an administrative entity providing supervision and certain other services to the local Centers located within Clermont County. It currently operates under an elected Board of Educational Service Center (5 members) and provides special education to handicapped students. The Center has its own fiscal officer and is considered a separate entity and issues its financial statements.

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 Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations.

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

The Center is associated with one jointly governed and two public entity risk pools. These organizations are discussed in Note 12 and Note 13 to the basic financial statements. These organizations are:

Jointly Governed:

Hamilton/Clermont Cooperative Association

Public Entity Risk Pools:

Ohio School Boards Association Workers' Compensation Group Rating Plan
Clermont County Health Trust

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

The basic financial statements of the Clermont County Educational Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Educational Service Center's accounting policies are described below.

Clermont County 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 (Continued)

The Center uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

The Educational Service 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 Fund Types:

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following is the Center's only major governmental fund:

General Fund - The General Fund is the 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 balance is available to the Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

B. Basis of Presentation

The Educational Service 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 Educational Service 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 Educational Service Center.

Fund Financial Statements:

During the year, the Educational Service 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.

Clermont County 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 Educational Service 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. 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 sixty days of fiscal 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 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 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.

The modified accrual basis is utilized for reporting purposes by the governmental fund types. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, tuition and fees.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Fees for contractual services, provided by the Center, received, but not earned, as of June 30, 2004, have been recorded as deferred revenues.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

Clermont County 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)

D. Budgetary Process

The budgetary process is prescribed by Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the budget and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The appropriations resolution is subject to amendment throughout the year. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Governing Board.

SF-5:

Annually, the Superintendent and Treasurer submit to the Governing Board a proposed County Board of Education, SF-5, budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds.

Encumbrances:

Encumbrance accounting is utilized by the Educational Service 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. Encumbrances are reported as part of expenditures/expenses on a non-GAAP budgetary basis in the Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Budget Basis) for the General Fund.

Appropriations:

By October 1, the annual appropriation resolution must be legally enacted by the Governing Board of the fund, function, and object level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenses of the Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Governing Board. The Center may pass supplemental fund appropriations. During the year, several supplemental appropriations were legally enacted. The final budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

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

To improve cash management, all cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

Clermont County 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)

E. Cash and Cash Equivalents (Continued)

During fiscal year 2004, investments were limited to STAR Ohio and repurchase agreements. Except for nonparticipating investment contracts, investments are recorded at fair value that is based upon quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$36,056.

For purposes of the statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Capital Assets and Depreciation

All capital assets of the Educational Service 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 Educational Service Center maintains a capitalization threshold of \$2,000. The Educational Service Center does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All 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:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	5-10 years

G. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and the funding is available.

H. Interfund Balances

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's right to receive compensation is attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payments.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the 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.

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 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 Center's termination policy. The Center records all liability for accumulated unused sick leave for classified employees after 20 years of current service with the Center and for certified employees and administrators after 20 years of service.

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.

J. 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. The Center had long-term obligations at June 30, 2004 as disclosed in Note 7.

K. 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 Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditures for specified purposes.

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

L. 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.

Clermont County 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)

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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

Changes in Accounting Principles:

For the Fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board (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”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The 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. Non-major funds are presented in total in one column.

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units.” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. This statement had no effect on the Center for the fiscal year June 30, 2004.

Capital assets beginning balances have been adjusted to reflect the capitalization threshold increase from \$500 to \$2,000.

The restated fund balance amount for government programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by certain adjustments. The implementation of these Statements and other corrections required that certain adjustments be recorded to the June 30, 2003, fund balances of major and non-major funds of the Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Non-major	Total
Fund Balances, June 30, 2003	\$2,651,286	\$81,296	\$2,732,582
Interpretation 6	21,191	407	21,598
Correction of errors	-	199	199
Reclassification of Food Service Fund	-	20,476	20,476
Restated Fund Balances, June 30, 2003	\$2,672,477	\$102,378.0	\$2,774,855
Adjustments necessary to comply with GASB 34:			
Capital Assets			242,239
Compensated Absences			(394,781)
Governmental Activities Net Assets, June 30, 2003			\$2,622,313

*Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the Clermont County Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) 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 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 (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	(38,896)
Adjustments	
Revenue Accruals	(46,926)
Expenditure Accruals	287,057
Encumbrances	<u>(51,480)</u>
Budget Basis	<u><u>149,755</u></u>

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash 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 which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Interim monies 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 any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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' acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase 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, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits At fiscal year end, the carrying amount of the Center's deposits was \$1,535,906 and the bank balance was \$1,685,507. Of the bank balance \$200,000 was covered by federal depository insurance. \$1,485,507 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

	Fair/Carrying Value
STAR Ohio	\$ 2,321,581

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$ 3,857,487	\$ -
STAR Ohio	(2,321,581)	2,321,581
<i>GASB Statement No. 3</i>	\$ 1,535,906	\$ 2,321,581

NOTE 6 - CAPITAL ASSETS

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

	Restated * *			Ending Balance 6/30/2004
	Beginning Balance 6/30/2003	Additions	Deletions	
<i>Governmental Activities:</i>				
Capital Assets Being Depreciated				
Furniture and Equipment	\$ 570,215	\$ 18,274	\$ -	\$ 588,489
Total Capital Assets, Being Depreciated				
Less Accumulated Depreciation:				
Furniture and Equipment	(327,976)	(79,378)	-	(407,354)
Total Accumulated Depreciation				
Total Capital Assets Being Depreciated, Net	242,239	(61,104)	-	181,135
Governmental Activities Capital Assets, Net	\$ 242,239	\$ (61,104)	\$ -	\$ 181,135

** See Note 3

* Depreciation Expense was charged to governmental functions as follows:

Regular Instruction	23,901
Special Instruction	2,454
Other Instruction	407
Support Services:	
Instructional Staff	9,361
Board of Education	43,255
Total Depreciation Expense	79,378

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - LONG-TERM LIABILITIES

The changes in the Center's long-term liabilities during fiscal year 2004 were as follows:

	Balance at 6/30/2003	Increase	Decrease	Balance at 6/30/2004	Amount Due In One Year
Compensated Absences	\$ 394,781	\$ 412,905	\$ 394,781	\$ 412,905	\$ 26,646
Total Long-Term Liabilities	<u>\$ 394,781</u>	<u>\$ 412,905</u>	<u>\$ 394,781</u>	<u>\$ 412,905</u>	<u>\$ 26,646</u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. 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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center 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, 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 Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$252,107, \$345,659, and \$297,054, respectively; 44 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$140,240 represents the unpaid contribution for fiscal year 2004.

B. 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, annual cost-of-living adjustments, and 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by 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 to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$917,523, \$879,555, and \$825,745, respectively; 85 percent has been contributed for fiscal year 2004 and 100 percent

for the fiscal years 2003 and 2002. \$137,378 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

NOTE 9 - POSTEMPLOYMENT 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-certified 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.

*Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.086 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$425,709,000 and STRS had 447,877 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, 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 was established at \$25,400.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses, before premium reduction. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 10 – OPERATING LEASE

The Clermont County Commissioners are responsible for providing space for the office of the Superintendent at the Clermont County Education Service Center. The Center rented space that was determined to be beyond the typical office of the Superintendent from the Clermont County Commissioners for the 2004 fiscal year. The total rent paid for fiscal year 2004 was \$35,733.

Pursuant to ORC Section 3319.19 (D), the Board of Education of County Commissioners is responsible for 80% of the final total estimated cost to provide and equip the office of the Superintendent of the Educational Service Center and to provide heat, light, water and janitorial services for the period beginning 07/01/2003 and ending 06/30/2004; and decline by 20% each year until the Service Center bears 100% of the cost beginning in fiscal year 2007.

The Educational Service Center has agreed to rent an additional 1,367 square feet at a rate to be negotiated each year.

NOTE 11- RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2004, the Center contracted with Citizens Insurance for general property insurance. The coverage has a \$1,000 deductible with a \$725,000 limit of insurance.

Professional liability is protected by The Ohio School Plan with \$1,000,000 each occurrence, \$3,000,000 aggregate limit. The Center also has an excess liability insurance policy through Twin City Fire Insurance Co. with \$2,000,000 each occurrence, \$2,000,000 aggregate.

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11- RISK MANAGEMENT (Continued)

Vehicles are covered by Erie Insurance Company with a \$500 deductible for comprehensive and a \$500 deductible for collision.

Public officials bond insurance is provided by The Wausau. The Treasurer and Assistant Treasurer are covered by bonds in the amount of \$20,000.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). 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 participating Centers is calculated as one experience and a common premium rate is applied to all Centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund".

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2004, the Center participated in the Clermont County Health Trust (the Trust), a public entity risk pool (Note 13) in order to provide life, sick, accident, and other benefits to employees, their dependents, and designated beneficiaries and to set aside funds for such purposes. Any of such benefits, as the Trustee may determine, may be provided in whole or in part through on or more group insurance policies.

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

Hamilton Clermont Cooperative Association - The Center is a participant in the Hamilton Clermont Cooperative Association (H/CCA) which is a computer consortium. H/CCA is an association of 24 public school districts within the boundaries of Hamilton and Clermont Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Centers. The governing board of H/CCA consists of the superintendent and/or treasurers of the participating members. H/CCA is not accumulating significant financial resources nor is it experiencing fiscal distress that may cause an additional financial burden on members in the future. The Center paid H/CCA \$16,195 for services provided during the year. Financial information can be obtained from the fiscal agent, the H/CCA of Boards of Education, Al Porter, Director, at 7615 Harrison Avenue, Cincinnati, Ohio 45231-3107.

NOTE 13 - INSURANCE PURCHASING POOLS

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

Clermont County Health Trust - The Clermont County Health Trust (Trust), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consist of one representative from each of the participating members and are elected by the vote of a majority of the member school districts.

*Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 13 - INSURANCE PURCHASING POOLS (Continued)

The Center pays premiums to a third party administrator, which in turn buys the insurance policies from various insurance companies. Upon termination, the Center shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The Center may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P.O. Box 526, Middletown, Ohio 45042.

NOTE 14 - SCHOOL FUNDING COURT DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient".

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

NOTE 15 - CONTINGENCIES

A. Grants

The 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 General Fund or other applicable funds. Management is unable to estimate possible claims from such audits until the audits have been completed. 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.

B. Litigation

The Center is not party to legal proceedings.

NOTE 16 - RECEIVABLES

Receivables at June 30, 2004, consisted of accounts (rent, billings for user charged services, and student fees) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<i>Major Fund</i>	
General	
Ohio System Grant	<u>\$ 3,315</u>
<i>Non-major Funds</i>	
Ohio Systematic Initiative	23,157
SchoolNet Professional Development	51,370
EPA	4,998
Adult Education	47,139
Title VI-B	<u>3,713</u>
Total Non-Major Funds	<u>130,377</u>
Total All Funds	<u><u>\$133,692</u></u>

Clermont County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 17 - INTERFUND ACTIVITY

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payables</u>
General Fund	\$ 4,560	\$ 0
Total Major Funds	4,560	0
<i>Non-Major Funds:</i>		
Ohio Systematic Initiative	<u>0</u>	<u>4,560</u>
Total All Funds	<u>\$ 4,560</u>	<u>\$ 4,560</u>

During the year, the District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

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Ohio Society of Certified Public Accountants

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

Members of the Board
Clermont Educational Service Center
2400 Clermont Center Drive, Suite 202
Batavia, Ohio 45103-1957

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clermont County Educational Service Center, Clermont County, Ohio (the Center), as of and for the year ended June 30, 2004 and have issued our report thereon dated February 15, 2005, wherein we noted the Center adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. 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 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 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 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Clermont County Educational Service Center
Clermon County

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*

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This report is intended for the information and use of the audit committee, management and the Board of Education
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.

February 15, 2005



**Auditor of State
Betty Montgomery**

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CLERMONT COUNTY EDUCATIONAL SERVICE CENTER

CLERMONT 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
JULY 5, 2005**