



**Auditor of State
Betty Montgomery**

**CLARK COUNTY EDUCATIONAL SERVICE CENTER
CLARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Clark County Educational Service Center
Clark County
30 Warder Street, Suite 120
Springfield, Ohio 45504

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Clark County Educational Service Center, Clark County, as of June 30, 2004, and the respective changes in financial position thereof 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 Government 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 11, 2005, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 11, 2005

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

Overall:

- Total net assets increased \$236,123, which represents a 55.7 percent increase from fiscal year 2003.
- Total assets of governmental activities increased \$230,903, attributed primarily to increased efforts to control operational spending by management and the designation of \$250,000 in general fund balance for anticipated future housing costs for the Educational Service Center.
- Program revenues, in the form of charges for services, operating grants and contributions, accounted for \$3.4 million or 70.0 percent of total revenue. General revenue sources, primarily state foundation payments, accounted for the remaining \$1.5 million of revenue received by the Educational Service Center.
- Of the Educational Service Center's \$4.7 million in expenses, \$3.4 million were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements, and property taxes) were used to cover the net expense of \$1.3 million.
- The General Fund, the Educational Service Center's only major fund, had an ending fund balance of \$652,713 or an 89.5 percent increase from fiscal year 2003. Management's efforts to control operating costs and maintain adequate reserves for future housing requirements, with lease payments anticipated to be significantly higher than current levels, explains the increase in general fund's ending fund balance.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Clark 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.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Educational Service Center's state funding, office space issues, and legislative decisions related to service delivery as well as organization of county service centers in the future.

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are including, but not limited to, instruction, support services, operation and maintenance of plant and pupil transportation. The Educational Service Center does not have any business-type activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins after the statement of activities. Fund financial reports provide detailed information about the General Fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds, and therefore only the major fund is presented separate from the other governmental funds.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

Governmental Funds

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

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

	<u>2004</u>	<u>2003</u>
<i>Assets</i>		
Current and Other Assets	\$1,221,626	\$ 971,137
Capital Assets	<u>112,414</u>	<u>132,000</u>
Total Assets	<u>1,334,040</u>	<u>1,103,137</u>
<i>Liabilities</i>		
Long-Term Liabilities	109,053	151,317
Other Liabilities	<u>564,697</u>	<u>527,623</u>
Total Liabilities	<u>673,720</u>	<u>678,940</u>
<i>Net Assets</i>		
Invested in Capital Assets, Net of Debt	69,412	78,620
Restricted	17,249	70,216
Unrestricted	<u>573,659</u>	<u>275,361</u>
Total Net Assets	<u>\$ 660,320</u>	<u>\$ 424,197</u>

The amount by which the Educational Service Center's assets exceeded its liabilities is called net assets. As of June 30, 2004, the Educational Service Center's net assets were \$660,320. Of that amount, \$69,412 was invested in capital assets, net of debt related to those assets. Another \$17,249 was subject to external restrictions upon its use. The remaining net asset amount of \$573,659 is unrestricted and available to the Educational Service Center to fund general operations. Ending net assets increased by \$236,123 as compared with fiscal year 2003. The designation of \$250,000 in the general fund for future housing requirements accounts for the increase in net assets as well as current assets (cash and cash equivalents).

Restricted net assets decreased by \$52,967 from fiscal year 2003 amounts. This decrease was caused by the Educational Service Center fully utilizing the majority of grant funding during the fiscal year and thus having less funds at year end unspent and consequently classified as restricted.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

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

TABLE 2
CHANGE IN NET ASSETS

	<u>2004</u>
Revenues	
Program Revenues:	
Charges for Services	\$ 3,219,902
Operating Grants and Contributions	224,932
General Revenues:	
Grants and Entitlements	1,445,396
Other	<u>29,729</u>
Total Revenues	<u>4,919,959</u>
Program Expenses	
Instruction	1,285,554
Support Services:	
Pupils and Instructional Staff	2,503,257
Board of Education, Administration, Fiscal and Business	876,032
Plant Operation and Maintenance	13,401
Pupil Transportation	477
Interest and Fiscal Charges	<u>5,115</u>
Total Expenses	<u>4,683,836</u>
Increase in Net Assets	\$ <u><u>236,123</u></u>

Governmental Activities

The Educational Service Center is funded through numerous means. The major components are tuition and fees, charges for services and intergovernmental (foundation). Increase in tuition and fees revenues was attributable to higher special education costs which were then passed onto the member districts. Additional revenues were realized through tuition charged for participation in the Educational Service Center's alternative school. Intergovernmental revenue related to federal and state grant monies decreased by a third, from the nearly \$320,000 in fiscal year 2003 to the \$200,000 reported for fiscal year 2004. Budget cuts in certain programs and funding timing issues are the reasons for this decrease. All other revenue components were flat or realized small decreases during fiscal year 2004.

Management has made a conscientious effort to minimize operating expenses while maintaining the level of service and quality of programs which have always been provided. This effort resulted in the \$236,123 increase in net assets realized in fiscal year 2004. Of the nearly \$4.7 million in expenses reported in fiscal year 2004, \$3.8 million was spent in instruction areas or support services which have direct impact on the instructional programs (pupil and instructional staff support). The remaining \$900,000 was expensed in functions necessary to operate and manage the Educational Service Center.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services unrestricted state entitlements and miscellaneous general revenue sources. Comparisons to 2003 have not been made because they are not available.

Table 3
Total and Cost of Program Services
Governmental Activities
For Fiscal year 2004

	Total Cost of Service	Net (Expense) Revenue of Service
Instruction	\$ 1,285,554	\$ 199,130
Support Services:		
Pupils and Instructional Staff	2,503,257	(544,107)
Board of Education, Administration, Fiscal and Business	876,032	(876,032)
Plant Operation and Maintenance	13,401	(13,401)
Pupil Transportation	477	523
Interest and Fiscal Charges	<u>5,115</u>	<u>(5,115)</u>
Total Expenses	\$ <u>4,683,836</u>	\$ <u>(1,239,002)</u>

As noted in Table 3, the expenses for instructional and those support services that assist the staff with the contents and process of teaching pupils (pupil and instructional staff support services) are either entirely offset, or have the majority of their expenses, by the tuition and fees charged by the Educational Service Center back to the member districts. Member districts are charged for services and tuition in two different manners, through direct billing from the Educational Service Center and through deduction from their State funding provided through the Foundation Program. Intergovernmental grants restricted to educational programs also provide revenue which can be directly related to these expense categories.

The remaining expense categories are used to capture costs related to the general operation and management of the Educational Service Center. As there are no revenue sources which are directly related to these expense categories, they are entirely financed through general revenues (state foundation funding, interest earnings and other miscellaneous revenue). The one exception is pupil transportation expenses, for which the Educational Service Center received a donation during fiscal year 2004 which more than offset the expenses. The remaining funds from the donation will be used in subsequent years to provide transportation service to special needs students involved in the Education Service Center's program.

Fiscal year 2004 is the first year the Educational Service Center has reported under the requirements of GASB 34, therefore, this is the first year the functional expenses reported include depreciation expense. Depreciation expense is charged to the function utilizing the corresponding capital asset.

In general, Table 3 indicates approximately 74 percent of the expenses of the Educational Service Center are funding through charges for services, tuition, and operating grants and contributions; the remaining 26 percent is funded through general revenues including state foundation.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

The Educational Service Center's Funds

Information about the Educational Service Center's general fund (the only major fund) begins on page 12. The general fund and all governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4.95 million and expenditures of \$4.71 million. The net increase in fund balance of \$246,423 resulted in an overall fund balance of \$656,959 for all governmental funds, of which \$652,713 was reported in the general fund. Included in the general fund's ending fund balance, \$37,218 was reserved and \$250,000 was designated by the Governing Board to indicate these amounts were not available for future appropriations. The remaining \$365,495 of the general funds ending fund balance was unreserved and undesignated and is available for future appropriations as deemed appropriate by the Governing Board.

General Fund Budgeting Highlights

The Educational Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Education Service Center does not have local tax levies financing its operations. However, the Governing Board annually adopts an expenditure budget, which sets the spending authority, or appropriations, for each fund for the ensuing fiscal year, and is set at the fund level. Revenues are not budgeted by the Governing Board.

The original appropriations adopted for fiscal year 2004 totaled \$5.2 million for all funds, of which \$5.0 was budgeted for the general fund. Appropriations were amended two times during the fiscal year and ending appropriations totaled \$5.3 million for all fund, \$5.0 million for the general fund.

For the General Fund, actual expenditures on the budget basis (cash outlays plus encumbrances) for fiscal year 2004 were \$4.5 million, \$500,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized. For all funds, budgetary expenditures totaled 4.8 million during fiscal year 2004 compared with original budget total of \$5.2 million and final budget total of \$5.3 million.

Capital Assets

At June 30, 2004 the capital assets of the Educational Service Center consisted of \$390,914 of equipment and \$21,980 in vehicles, with accumulated depreciation of \$285,071 and \$15,409, respectively, resulting in net capital assets of \$112,414. The \$19,586 decrease in total net capital assets from the prior year is due to current year depreciation of \$37,555 offsetting the \$17,969 of equipment acquisitions made during the fiscal year.

See Note 8 of the notes to the basic financial statements for additional information on the Educational Service Center's capital assets.

Debt Administration

At June 30, 2004, the debt obligations of the Educational Service Center consisted solely of capital leases entered into during previous fiscal years to obtain equipment. The remaining liability on these leases at the end of fiscal year 2004 totaled \$43,002. See notes 13 and 14 to the notes to the basic financial statements for additional information.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

For the Future

The Clark County Educational Service Center faces a few uncertainties in near future, including both financial and organizational issues.

The financial uncertainty is due to the pending move of the Educational Service Center's office from the current location to another location with significant additional lease payments. To alleviate some of the financial burden of the additional cost, the Educational Service Center has designated some of its general fund ending balance to pay the anticipated housing costs. In addition, other entities have agreed to pay a share of the higher lease payments for the next three fiscal years. Taking the current fund balance and the pledge from other entities, the Educational Service Center anticipates covering the higher housing costs with minimal impact on operations for the next three fiscal years, however after those three fiscal years, additional revenues or significant cost reductions will be needed to provide sufficient funding for the additional lease costs.

On the organizational side, in response to a mandate by the Ohio legislature, the Ohio Department of Education (ODE) has developed a plan called Ohio Regional Educational Delivery System (OREDS) which will affect how educational service centers will be organized as well as how services provided by the service centers will be delivered. The part of OREDS that will have a direct and dramatic impact on the Educational Service Center is how the service centers will be organized. The current consensus is there will be either 19 regional service centers or 12. If the final plan consolidates the individual county educational service center into 19 regional service centers, it is anticipated the Educational Service Center will be one regional center and will have additional member districts from surrounding counties. If there are only 12 regional centers, it is anticipated the school districts within Clark County will be assigned to another regional service center and the Clark County Education Service Center would cease to exist. While a decision on the number of regional service centers and other matters, including how these regional service centers will be funded, was anticipated in March 2004, to-date no such decision has been announced.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Treasurer's Office at Clark County Educational Service Center, 30 Warder Street, Suite 120, Springfield, OH 45504 or call (937) 325-7671.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Statement of Net Assets

For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Investments	\$ 1,198,498
Receivables:	
Intergovernmental	20,358
Prepaid Items	2,770
Capital Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>112,414</u>
 Total Assets	 <u>1,334,040</u>
LIABILITIES:	
Accounts Payable	14,411
Accrued Wages and Benefits	474,081
Intergovernmental Payable	76,175
Noncurrent Liabilities:	
Due Within One Year	34,225
Due In More Than One Year	<u>74,828</u>
 Total Liabilities	 <u>673,720</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	69,412
Restricted for:	
Specific Educational Programs	17,249
Unrestricted	<u>573,659</u>
 Total Net Assets	 \$ <u><u>660,320</u></u>

See accompanying notes to the basic financial statements

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Statement of Activities

For the Fiscal Year Ended June 30, 2004

Functions/Programs:	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	Revenue and Changes in Net Assets
				<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 372,598	238,807	10,240	(123,551)
Special	912,956	1,223,188	12,449	322,681
Support Services:				
Pupils	1,046,843	1,075,164	1,752	30,073
Instructional Staff	1,456,414	682,743	199,491	(574,180)
Board of Education	24,303	-	-	(24,303)
Administration	690,659	-	-	(690,659)
Fiscal	133,749	-	-	(133,749)
Business	27,321	-	-	(27,321)
Operation and Maintenance of Plant	13,401	-	-	(13,401)
Pupil Transportation	477	-	1,000	523
Interest and Fiscal Charges	<u>5,115</u>	<u>-</u>	<u>-</u>	<u>(5,115)</u>
Total	\$ <u>4,683,836</u>	<u>3,219,902</u>	<u>224,932</u>	<u>(1,239,002)</u>
General Revenues:				
Grants, Entitlements and Contributions not Restricted to Specific Programs				1,445,396
Investment Earnings				4,297
Other Revenue				<u>25,432</u>
Total General Revenues				<u>1,475,125</u>
Change in Net Assets				236,123
Net Assets, Beginning of Year, as restated				<u>424,197</u>
Net Assets, End of Year				\$ <u>660,320</u>

See accompanying notes to the basic financial statements

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Balance Sheet

For the Fiscal Year Ended June 30, 2004

June 30, 2004

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Equity in Pooled Cash and Investments	\$ 1,180,089	\$ 18,409	\$ 1,198,498
Receivables:			
Intergovernmental	20,358	-	20,358
Prepaid Items	<u>2,770</u>	<u>-</u>	<u>2,770</u>
 Total Assets	 <u>\$ 1,203,217</u>	 <u>\$ 18,409</u>	 <u>\$ 1,221,626</u>
LIABILITIES:			
Accounts Payable	\$ 14,411	\$ -	\$ 14,411
Accrued Wages and Benefits	460,447	13,634	474,081
Intergovernmental Payable	<u>75,646</u>	<u>529</u>	<u>76,175</u>
 Total Liabilities	 <u>550,504</u>	 <u>14,163</u>	 <u>564,667</u>
FUND BALANCES:			
Reserved for:			
Encumbrances	34,448	-	34,448
Prepaid Items	2,770	-	2,770
Unreserved, Designated	250,000	-	250,000
Unreserved, Undesignated:			
General Fund	365,495	-	365,495
Special Revenue Funds	<u>-</u>	<u>4,246</u>	<u>4,246</u>
 Total Fund Balances	 <u>652,713</u>	 <u>4,246</u>	 <u>656,959</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,203,217</u>	 <u>\$ 18,409</u>	 <u>\$ 1,221,626</u>

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Reconciliation of Total Governmental Fund Balances

to Net Assets of Governmental Activities

June 30, 2004

Total Governmental Fund Balances	\$	656,959
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		112,414
Long-term liabilities which are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences payable		(53,348)
Intergovernmental payable		(12,703)
Capital leases payable		<u>(43,002)</u>
Net Assets of Governmental Activities	\$	<u>660,320</u>

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Statement of Revenues, Expenditures and

Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Intergovernmental	\$ 1,566,669	\$ 135,638	\$ 1,702,307
Tuition and Fees	2,254,718	-	2,254,718
Charges for Services	899,680	65,503	965,183
Interest	4,297	-	4,297
Miscellaneous	25,432	1,000	26,432
Total Revenues	<u>4,750,796</u>	<u>202,141</u>	<u>4,952,937</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	324,935	32,388	357,323
Special	898,604	27,876	926,480
Support Services:			
Pupils	1,038,264	11,731	1,049,995
Instructional Staff	1,318,670	161,305	1,479,975
Board of Education	24,303	-	24,303
Administration	684,065	-	684,065
Fiscal	130,334	-	130,334
Business	24,668	-	24,668
Operation and Maintenance of Plant	13,401	-	13,401
Pupil Transportation	-	477	477
Debt Service:			
Principal	10,378	-	10,378
Interest	5,115	-	5,115
Total Expenditures	<u>4,472,737</u>	<u>233,777</u>	<u>4,706,514</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>278,059</u>	<u>(31,636)</u>	<u>246,423</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	30,271	-	30,271
Transfers Out	<u>-</u>	<u>(30,271)</u>	<u>(30,271)</u>
Total Other Financing Sources (Uses)	<u>30,271</u>	<u>(30,271)</u>	<u>-</u>
Net Change in Fund Balances	308,330	(61,907)	246,423
Fund Balance, Beginning of Year, as restated	<u>344,383</u>	<u>66,153</u>	<u>410,536</u>
Fund Balance, End of Year	<u>\$ 652,713</u>	<u>\$ 4,246</u>	<u>\$ 656,959</u>

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Total Net Change in Fund Balances - Total Governmental Funds \$ 246,423

*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 are allocated
over their estimated useful lives as depreciation expense. This is the
amount by which depreciation exceeded capital outlay in the current year. (19,586)

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds. (32,978)

Repayment of long-term debt obligation principal is an expenditure in the
governmental funds, but the repayment reduces the long-term liabilities
in the statement of net assets. This is the principal amount paid on
capital leases during the fiscal year. 10,378

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

Intergovernmental payable	(4,540)	
Compensated absences	<u>36,426</u>	<u>31,886</u>

Change in Net Assets of Governmental Activities \$ 236,123

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY, OHIO

Statement of Fiduciary Net Assets

June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>1,978</u>
Total Assets	\$ <u><u>1,978</u></u>
 LIABILITIES:	
Due to Others	\$ <u>1,978</u>
Total Liabilities	\$ <u><u>1,978</u></u>

See accompanying notes to the basic financial statements

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Clark County Educational Service Center (the Educational Service Center) is located in Springfield, Ohio, the county seat. The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services by state and federal agencies. The Board controls the Educational Service Center's 38 support staff employees and 53 certified employees who provide services to the staff and students of the six local school districts within Clark County.

The Educational Service Center was established in 1914 in response to recommendations from the Ohio State School Survey Commission. Senate Bill 9, passed on February 4, 1914, provided for the standardization of schools and established the county educational service centers.

Since 1914, county superintendents have been involved in various areas of administration and performed many services, which include, but are not limited to the following: cooperative programs, supervision, liaison between local school districts and the Ohio Department of Education, health insurance programs, and special education services. Many of those services have been initiated by the county office of education without being legislatively mandated.

The Educational Service Center consists of five elected board members, a superintendent, a treasurer, and employees. The Clark County Educational Service Center is a chartered school district and was chartered July 21, 1989 by the State Board of Elections.

The Educational Service Center serves six local school districts: Greenon Local, Northeastern Local, Northwestern Local, Southeastern Local, Clark-Shawnee Local and Tecumseh Local. It also works with the Springfield-Clark County Joint Vocational School in the areas of inservice of administrators. Springfield City Schools and the Educational Service Center have entered into a city/county agreement to provide services in designated areas.

Under Senate Bill 140, county educational service centers are required to appoint business advisory councils. The Educational Service Center has appointed a Business Advisory Council, which is strictly voluntary on the part of the members. There is no financial responsibility of the Educational Service Center for this council.

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 and departments, not legally separate from the Educational Service Center. For the Educational Service Center, this includes all 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 body 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 the levying of taxes. The Educational Service Center does not have any component units.

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For the Fiscal Year Ended June 30, 2004

The Educational Service Center is associated with five organizations, which are defined as jointly governed and three insurance purchasing pools. These organizations include the Miami Valley Educational Computer Association the Southwestern Ohio Educational Purchasing Cooperative, the Clark County Family and Children First Council, the Springfield-Clark County Joint Vocational School, the Southwestern Ohio Educational Purchasing Council Worker's Compensation Group Rating Plan, the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, Southwestern Ohio Instructional Technology Association and the Ohio School Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clark County Educational 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 body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its government-wide financial statements provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. 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, except for fiduciary funds.

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

Fund Financial Statements

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

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

Governmental Funds

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 Educational Service Center's General Fund is the only major fund:

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 is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only fiduciary fund is an agency fund used to hold the monies deposited by employees into the Educational Service Center's Section-125 medical savings plan.

C. Measurement Focus

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.

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.

Fiduciary funds are reported using the economic resources measurement focus.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

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

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed to be both measurable and available: tuition and fees, as well as charges for services.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related liability is incurred, if measurable. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by the employee. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

The accrual basis of accounting utilized on the government-wide financial statements recognizes revenues when they are earned, and expenses are recognized at the time they are incurred.

E. Cash and Investments

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

CLARK COUNTY EDUCATIONAL SERVICE CENTER

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

During fiscal year 2004, the Educational Service Center's investments were limited to funds invested in the State Treasury Assets Reserves of Ohio (STAR Ohio). 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 \$4,297 which includes \$98 assigned from other Educational Service Center funds.

For presentation on the statement of net assets and the governmental fund's balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

F. 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 and recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

G. Estimates

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

H. Capital Assets and Depreciation

General capital assets generally result from expenditures in the governmental funds. These assets are reported within the governmental activities on the government-wide statement of net assets but are not reported in the fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements throughout 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 five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also not capitalized.

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>
Equipment	5 – 15 years
Vehicles	8 years

CLARK COUNTY EDUCATIONAL SERVICE CENTER

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated, unused vacation leave time when earned, for all employees with more than one year of service.

A liability for sick leave is accrued using the vesting method which states that the District will estimate its liability based on sick leave accumulated at the end of the fiscal year by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated sick leave for all employees after ten years of current service with the Educational Service Center.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. 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, principal payment on capital leases, compensated absences liability 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.

K. Net Assets

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

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

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For the Fiscal Year Ended June 30, 2004

L. Reservations and Designations of Fund Balance

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances and prepaid items.

In addition, the Educational Service Center has determined to maintain a segregated housing account which will be used to help finance future lease payments for new office space in subsequent years, and therefore, this account is shown on the fund financial statements as designated fund balance to indicate that the Educational Service Center made the determination to set these funds aside.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the Educational 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” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB 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. Nonmajor funds are presented in total in one column.

The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflect the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the new reporting model.

B. Restatement of Fund Balances

GASB Interpretation No. 6 redefined how liabilities should be recognized in governmental funds that resulted in certain liabilities to be reported as long-term instead as an actual fund liability.

These restatements had the following effect on the general fund of the Educational Service Center as they were previously reported. In addition, the Education Service Center had a complete inventory and appraisal of all capital assets it possesses. As a result of this process, it was discovered that certain items have been excluded from the capital asset amounts reported in prior years. The transition from governmental fund balance to net assets of the governmental activities is also presented.

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For the Fiscal Year Ended June 30, 2004

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Balance June 30, 2003	\$ 329,958	\$ 66,153	\$ 396,111
Implementation of GASB Int. 6	14,425	-	14,425
Adjusted fund balance, June 30, 2003	<u>\$ 344,383</u>	<u>66,153</u>	410,536
GASB 34 Adjustments:			
Capital assets, net			132,000
Long-term liabilities			(8,163)
Long-term compensated absences			(89,774)
Capital leases payable			(53,380)
Long-term (deferred) assets			<u>32,978</u>
Governmental Activities Net Assets – June 30, 2003			<u>\$ 424,197</u>

NOTE 4 - ACCOUNTABILITY

At June 30, 2004, the Parent Mentor, Autism Grant, and Drug Free Schools Grant special revenue funds had deficit fund balances of \$88, \$52, and \$136, respectively. The deficits in these funds resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in early fiscal year 2005. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes require the classification of monies held by the Educational Service Center into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the District. Such monies must be maintained either as cash in the School Treasury, in depository accounts payable, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two-year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" monies, 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 the certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

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Interim monies may be invested in the following obligations:

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;

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 governmental agencies or instrumentalities;

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;

Bonds and other obligations of the State of Ohio;

No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

The State Treasurer's investment pool (STAR Ohio);

Certain bankers' acceptances 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;

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched-to a specific obligation or debt of the Educational Service Center and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits

At fiscal year end, the carrying amount of the Educational Service Center deposit was \$1,098,617 and the bank balance was \$1,130,110. Of the bank balance \$200,000 was covered by federal deposit insurance and the remaining amount was uninsured and uncollateralized.

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Although the securities serving as collateral were held by the pledging institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Educational Service Center's name.

The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. STAR Ohio had a fair value of \$101,859 at June 30, 2004.

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reported Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between 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 <u>Deposits</u>	<u>Investments</u>
GASB Statement 9	\$ 1,200,476	\$ 0
Investments of the Cash Management Pool:		
STAR Ohio	<u>(101,859)</u>	<u>101,859</u>
GASB Statement 3	<u>\$ 1,098,617</u>	<u>\$ 101,859</u>

NOTE 6 – STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

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For the Fiscal Year Ended June 30, 2004

If additional funding is needed, and if a majority of the Boards of Educations of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The local school districts under the Educational Service Center pay an additional \$4.50 per student and the city school district pays an additional \$6.50 per student.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental (excess cost, tuition from other school districts). All receivables are considered collectible in full. At June 30, 2004 the \$20,358 in intergovernmental receivables recorded in the general fund were due from school districts served by the Educational Service Center for tuition and fees (\$9,720), seminar workshop (\$9,854), and miscellaneous reimbursement (\$784).

NOTE 8 – CAPITAL ASSETS

The June 30, 2003 beginning balance of the Educational Service Center’s capital assets have been adjusted to reflect the results of an appraisal of the Educational Service Center’s property. A summary of these adjustments is as follows:

General Capital Assets	<u>Balance at June 30, 2003</u>	<u>Adjustment for Corrections</u>	<u>Adjusted Balance at June 30, 2003</u>
Equipment	\$ 288,428	\$ 84,517	\$ 372,945
Vehicles	<u>21,980</u>	<u>0</u>	<u>21,980</u>
Totals	<u>\$ 310,408</u>	<u>\$ 84,517</u>	<u>\$ 394,925</u>

Capital asset activity for fiscal year 2004 was as follows:

	<u>Adjusted Balance 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
<u>Capital Assets, being depreciated</u>				
Furniture and Equipment	\$ 372,945	\$ 17,969	\$ 0	\$ 390,914
Vehicles	<u>21,980</u>	<u>0</u>	<u>0</u>	<u>21,980</u>
	<u>394,925</u>	<u>17,969</u>	<u>0</u>	<u>412,894</u>
<u>Less: Accumulated Depreciation</u>				
Furniture and Equipment	(249,325)	(35,746)	0	(285,071)
Vehicles	<u>(13,600)</u>	<u>(1,809)</u>	<u>0</u>	<u>(15,409)</u>
	<u>(262,925)</u>	<u>(37,555) *</u>	<u>0</u>	<u>(300,480)</u>
Governmental Activities Capital Assets, Net	<u>\$ 132,000</u>	<u>\$ (19,586)</u>	<u>\$ 0</u>	<u>\$ 112,414</u>

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

* - Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 15,294
Special	3,606
Support Services:	
Pupil Support	4,743
Instructional Support	4,816
Administration	4,256
Fiscal	632
Business	4,208
Total Depreciation Expense	<u>\$ 37,555</u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Educational Service Center contracted with Consolidated Insurance Company for property insurance with a \$100 deductible.

During fiscal year 2004, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 16). The Educational Service Center contracts for fleet insurance, education general liability, employee benefits liability, and employer's liability and stop gap with OSP.

Insurance coverage provided includes the following:

Fleet Liability (\$100 deductible)	\$1,000,000
Auto Medical Payments (\$100 deductible)	5,000
Uninsured Motorists (\$100 deductible)	250,000
Education General Liability:	
Each Occurrence	1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000

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

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

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

B. Workers' Compensation

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts 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 school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 16). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 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 Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$76,113, \$69,032 and \$92,345 respectively; 100 percent was contributed for all three fiscal year.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$312,832, \$356,347, and \$303,531 respectively; 81 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, all five members of the Governing Board have elected social security. The Educational Service Center's liability is 6.2 percent of wages paid.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 – POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. 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 allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.1 billion on June 30, 2004. For the Educational Service Center, this amount equaled \$24,065 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. 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.

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, the allocation rate is 4.91 percent. 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. For the School, the amount to fund health care benefits, including the surcharge, was \$67,017 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from Board policy and State laws. All twelve month certified employees earn twenty days of vacation per fiscal year, eleven month certified employees earn fifteen days of vacation per fiscal year and ten month certified employees earn ten days of vacation per fiscal year. Teachers do not earn vacation time.

Support staff employees earn ten days of vacation after one year of service; after eight years of service they earn fifteen days of vacation; with fifteen years of service they earn twenty days of vacation and after twenty-five years of service they earn twenty-five days of vacation per year. Accumulated, unused vacation must be used by October of the fiscal year following the fiscal year in which it is earned.

All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract in which it is earned.

All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, payment is made for one-fifth of accrued, but unused sick leave credit to a maximum of 45 days for all employees. Directors with two years experience with the Educational Service Center are eligible to be paid a maximum of 56 days of unused sick leave upon retirement.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company. Medical/surgical benefits are provided by United Health Care through Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (See Note 16). The employees' are required to contribute 20 percent of the premiums for medical/surgical benefits.

C. Pick-Up of Employees' Share of Retirement

Beginning in fiscal year 2004, the Educational Service Center began contributing 10 percent of the employee contributions to the State Teachers Retirement System of Ohio (STRS Ohio) and the School Employees Retirement System (SERS).

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the Educational Service Center entered into capitalized leases for the acquisition of reproduction equipment. The terms of these agreements provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements in the general fund. Capital assets (reproduction equipment) acquired by leases which have been capitalized total \$60,070, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is reported on the statement of net assets. Principal payments in fiscal year 2004 totaled \$10,378.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

	Fiscal Year Ending June 30,	
	2005	\$ 15,493
	2006	15,493
	2007	15,493
	2008	<u>4,582</u>
Total Minimum Lease Payments		51,061
Less: Amount Representing Interest		<u>(8,059)</u>
Present Value of Minimum Lease Payments		<u>\$ 43,002</u>

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Balance June 30, 2003	Increase	Decrease	Balance June 30, 2004	Due within One Year
Intergovernmental Payable	\$ 8,163	\$ 12,703	\$ 8,163	\$ 12,703	\$ 12,703
Compensated Absences	89,774	0	36,426	53,348	10,000
Capital Lease Obligations	53,380	0	10,378	43,002	11,522
Total Long-Term Obligations	<u>\$ 151,317</u>	<u>\$ 12,703</u>	<u>\$ 54,967</u>	<u>\$ 109,053</u>	<u>\$ 34,225</u>

Intergovernmental payable and compensated absences will be paid from the funds from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period. Capital leases will be paid from the general fund.

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Educational Computer Association

The Educational Service Center is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. 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 districts.

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Educational Service Center paid MVECA \$24,320 for services provided during the year. Financial information can be obtained from Norma Stewart, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2004, the Educational Service Center paid \$300 to SOEPC for membership fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Clark County Family and Children First Council

The Clark County Family and Children First Council (the Council) is a voluntary association established to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of each of the members of the Council. The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Educational Service Center did not pay any dues during fiscal year 2004. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 1345 Lagonda Road, Springfield, Ohio 45502.

Springfield-Clark County Joint Vocational School

The Springfield-Clark County Joint Vocational School (the JVS) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Educational Service Center. One member is appointed from the Springfield City School District. To obtain financial information, write to the Springfield-Clark County Joint Vocational School, Pamela Ashbaugh, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4329.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a non-profit corporation organized to serve the educational needs of the area through television programming for the advancement of educational programs.

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members from the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During the 2004 fiscal year, the Educational Service Center paid \$13,481 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as the Director, at 150 East Sixth Street, Franklin, Ohio 45505.

NOTE 16 – INSURANCE PURCHASING POOLS

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Plan

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

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 17 – INTERFUND ACTIVITY

During fiscal year 2004, the Educational Service Center transferred \$30,271 from various nonmajor special revenue funds, in which activity had ceased, to the general fund in compliance with grant requirements.

NOTE 18 - CONTINGENCIES

The Educational 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 is subject to audit by the grantor agencies.

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

NOTE 19 - STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

NOTE 20 – SUBSEQUENT EVENTS

In November 2004, the Educational Service Center's Governing Board approved entering into a three-year lease agreement to rent approximately 10,000 square feet of office space in an office building located in Springfield, Ohio. Base rental payments total \$100,000 per year and are adjustable annually based on the Consumer Price Index increase.

**CLARK COUNTY EDUCATIONAL SERVICE CENTER
CLARK COUNTY, OHIO**

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP) and Actual
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>
<u>Revenues:</u>				
Tuition and Fees			\$ 2,281,301	
Intergovernmental			1,599,369	
Charges for Services			899,680	
Interest			4,297	
Miscellaneous			<u>15,578</u>	
<i>Total Revenues</i>			<u>4,800,225</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular Instruction	\$ 361,636	\$ 360,203	320,364	\$ 39,839
Special Instruction	921,375	917,725	901,490	16,235
Pupils	1,074,584	1,070,327	1,018,181	52,146
Instructional Staff	1,702,799	1,696,053	1,328,276	367,777
Board of Education	29,993	29,874	23,741	6,133
Administration:	752,827	749,845	697,290	52,555
Fiscal	131,828	131,306	129,254	2,052
Business	36,207	36,064	30,609	5,455
Operation and Maintenance of Plant	21,594	21,508	13,401	8,107
Central	<u>502</u>	<u>500</u>	<u>-</u>	<u>500</u>
<i>Total Expenditures</i>	<u>\$ 5,033,345</u>	<u>\$ 5,013,405</u>	<u>4,462,606</u>	<u>\$ 550,799</u>
Excess of Revenues Over (Under) Expenditures			<u>337,619</u>	
<u>Other Financing Sources (Uses):</u>				
Advances In			15,430	
Transfers In			<u>30,271</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>45,701</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			383,320	
Fund Balance, Beginning of Year			705,710	
Prior Year Encumbrances Appropriated			<u>49,554</u>	
Fund Balance, End of Year			<u>\$ 1,138,584</u>	

See accompanying notes to the required supplementary information

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2004

Basis of Budgeting

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Educational Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

The basis of budgeting differs from generally accepted accounting principles (GAAP) used for the Educational Service Center's year-end basic financial statements. Under that basis of accounting, expenses are generally recognized when the Educational Service Center becomes eligible to receive the revenue; the budget basis however, recognizes revenue only when cash has been received. In the basic financial statements, expenditures are generally recognized in the period in which they are incurred. Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

General Budget Policies

The Educational Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Governing Board does not budget revenues.

The primary level of budget control established by the Governing Board is at the fund level. Any budgetary modifications below this amount may be made management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board. During fiscal year 2004 there were two modifications to the appropriation budget approved by the Governing Board. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

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

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances 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 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund presented as supplementary information 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

CLARK COUNTY EDUCATIONAL SERVICE CENTER

Clark County, Ohio

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2004

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis schedule for the General Fund.

<u>Net Change in Fund Balance</u>	
<u>General Fund</u>	
GAAP Basis	\$ 308,330
Revenue Accruals	49,429
Expenditure Accruals	51,635
Advances	15,430
Encumbrances	(41,504)
Budget Basis	<u>\$ 383,320</u>

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Auditor of State Betty Montgomery

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

Clark County Educational Service Center
Clark County
30 Warder Street, Suite 120
Springfield, Ohio 45504

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Clark County Educational Service Center, Clark County, (the Government), as of and for the year ended June 30, 2004, which collectively comprise the Government's basic financial statements and have issued our report thereon dated March 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Government's management in a separate letter dated March 11, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

March 11, 2005

CLARK COUNTY EDUCATIONAL SERVICE CENTER
CLARK COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

CLARK COUNTY EDUCATIONAL SERVICE CENTER
CLARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: <i>Explain:</i>
2003-001	Accounting and Reporting of Fixed Assets	Yes	



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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Telephone 614-466-4514
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Facsimile 614-466-4490

CLARK COUNTY EDUCATIONAL SERVICE CENTER

CLARK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**