



**Auditor of State
Betty Montgomery**

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

Columbiana County Educational Service Center
Columbiana County
38720 Saltwall Road
Lisbon, Ohio 44432

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, each major fund, and the aggregate remaining fund information of the Columbiana County Educational Service Center, Columbiana County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, IDA Title VI-B and Miscellaneous Grant funds 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 Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 is not a required part of the basic financial statements but is 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.

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We conducted our audit to form opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 31, 2005

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$544,075 from \$1,548,011 to \$1,003,936 which represents a 35.15% decrease from 2003.
- General revenues accounted for \$3,130,121 in revenue or 37.42% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,234,343 or 62.58% of total revenues of \$8,364,464.
- The Center had \$8,908,539 in expenses related to governmental activities; \$5,234,343 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,130,121 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, IDA VI-B fund and miscellaneous federal grants fund. The general fund had \$6,815,077 in revenues and \$7,477,027 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$538,333 from \$852,215 to \$313,882.
- The IDA VI-B fund had \$893,612 in revenues and \$912,990 in expenditures. During fiscal year 2004, the IDA VI-B fund's fund balance decreased \$19,378 to a deficit of \$(19,378).
- The miscellaneous federal grants fund had \$334,101 in revenues and \$214,399 in expenditures. During fiscal year 2004, the miscellaneous federal grants fund's deficit decreased \$119,702 from \$(269,993) to \$(150,291).

Using these 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 the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund, IDA VI-B fund and miscellaneous federal grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the 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 answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the 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 Center's facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund, IDA VI-B fund and miscellaneous federal grants fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service funds account for medical/surgical and dental self-insurance, and a computer maintenance program. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

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COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 25. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-50 of this report.

The Center as a Whole

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

The table below provides a summary of the Center's net assets for 2004.

	Net Assets
	Governmental Activities
	<u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 2,006,590
Capital assets, net	<u>1,121,255</u>
Total assets	<u>3,127,845</u>
<u>Liabilities</u>	
Current liabilities	1,042,844
Long-term liabilities	<u>1,081,065</u>
Total liabilities	<u>2,123,909</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	284,121
Restricted	28,603
Unrestricted	<u>691,212</u>
Total net assets	<u>\$ 1,003,936</u>

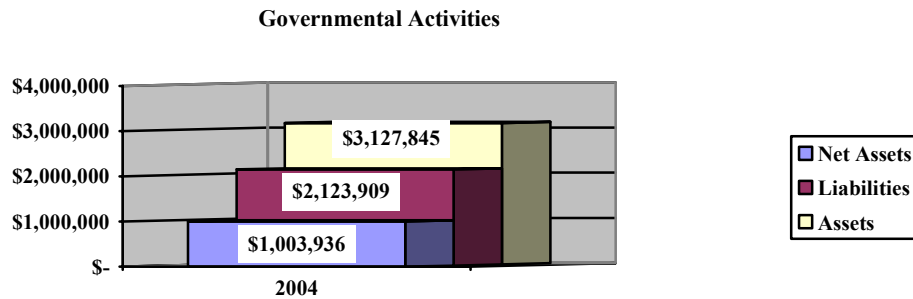
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Center's assets exceeded liabilities by \$1,003,936. Of this total, \$691,212 is unrestricted in use.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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At year-end, capital assets represented 35.85% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$284,121. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$28,603, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$691,212 may be used to meet the Center's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the Center has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
Revenues	
Program revenues:	
Charges for services and sales	\$ 3,741,490
Operating grants and contributions	1,467,515
Capital grants and contributions	25,338
General revenues:	
Grants and entitlements	3,123,777
Investment earnings	5,697
Other	647
Total revenues	<u>8,364,464</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 213,203
Special	759,791
Vocational	146
Support services:	
Pupil	1,957,499
Instructional staff	2,544,871
Board of education	22,549
Administration	475,038
Fiscal	193,683
Operations and maintenance	95,193
Pupil transportation	673,101
Central	823,737
Operations of non-instructional services	162,347
Intergovernmental pass-through	954,951
Interest and fiscal charges	<u>32,430</u>
Total expenses	<u>8,908,539</u>
Change in net assets	(544,075)
Net assets at beginning of year	<u>1,548,011</u>
Net assets at end of year	<u><u>\$ 1,003,936</u></u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$544,075. Total governmental expenses of \$8,908,539 were offset by program revenues of \$5,234,343 and general revenues of \$3,130,121. Program revenues supported 58.76% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 44.73% of total governmental revenue.

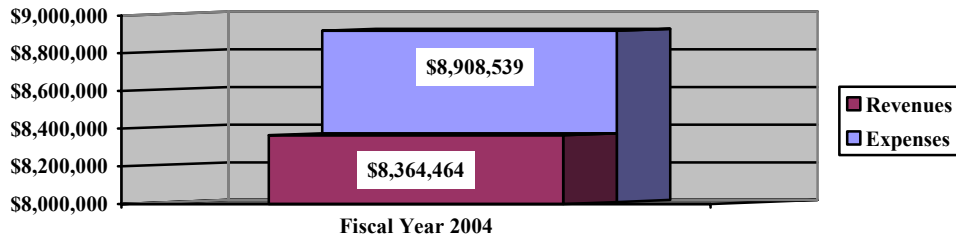
The largest expense of the Center is for instructional staff programs. Instructional staff expenses totaled \$2,544,871 or 28.57% of total governmental expenses for fiscal 2004.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the Center's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

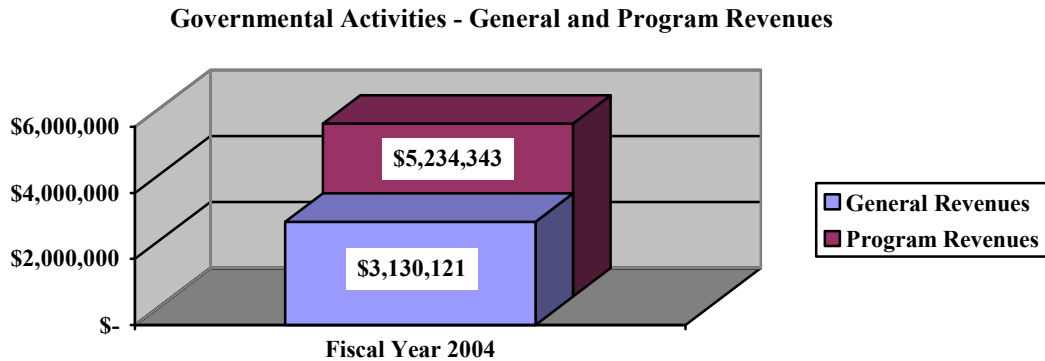
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 213,203	\$ 113,093
Special	759,791	330,652
Vocational	146	146
Support services:		
Pupil	1,957,499	842,504
Instructional staff	2,544,871	514,740
Board of education	22,549	22,549
Administration	475,038	210,167
Fiscal	193,683	191,466
Operations and maintenance	95,193	92,793
Pupil transportation	673,101	670,242
Central	823,737	795,399
Operations of non-instructional services	162,347	(161,570)
Intergovernmental pass-through	954,951	19,585
Interest and fiscal charges	32,430	32,430
Total expenses	<u>\$ 8,908,539</u>	<u>\$ 3,674,196</u>

The dependence upon other general revenues for governmental activities is apparent, 45.61% of instruction activities are supported through unrestricted grants and entitlements and other general revenues. For all governmental activities, general revenue support is 41.24%. The Center's charges for services, as a whole, are by far the primary support for Center's students.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

The graph below presents the Center's governmental activities revenue for fiscal year 2004.



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$180,086, which is lower than last year's total of \$719,941. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 313,882	\$ 852,215	\$ (538,333)	(63.17) %
IDA VI-B	(19,378)	-	(19,378)	(100.00) %
Miscellaneous Federal Grants	(150,291)	(269,993)	119,702	(44.34) %
Other Governmental	<u>35,873</u>	<u>137,719</u>	<u>(101,846)</u>	(73.95) %
Total	<u>\$ 180,086</u>	<u>\$ 719,941</u>	<u>\$ (539,855)</u>	(74.99) %

General Fund

The Center's general fund balance decreased \$538,333 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to decreasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$661,950. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Intergovernmental	\$ 3,123,777	\$ 2,917,723	\$ 206,054	7.06 %
Tuition	3,198,940	3,411,645	(212,705)	(6.23) %
Earnings on investments	1,935	7,475	(5,540)	(74.11) %
Services provided to other entities	487,378	460,757	26,621	5.78 %
Other revenues	<u>3,047</u>	<u>13,530</u>	<u>(10,483)</u>	(77.48) %
Total	<u>\$ 6,815,077</u>	<u>\$ 6,811,130</u>	<u>\$ 3,947</u>	0.06 %
<u>Expenditures</u>				
Instruction	\$ 827,947	\$ 983,928	\$ (155,981)	(15.85) %
Support services	6,408,018	5,839,392	568,626	9.74 %
Non-instructional services	-	977	(977)	(100.00) %
Capital outlay	123,617	78,123	45,494	58.23 %
Debt service	<u>117,445</u>	<u>34,218</u>	<u>83,227</u>	243.23 %
Total	<u>\$ 7,477,027</u>	<u>\$ 6,936,638</u>	<u>\$ 540,389</u>	7.79 %

In the general fund, earnings on investments revenues were down due to lower interest rates on investments than in the prior year. Instruction expenditures decreased due to less demand from local school districts for these services. Debt service expenditures increased due to increased principal payments on capital lease obligations being paid from the general fund.

IDA VI-B Fund

The IDA VI-B fund had \$893,612 in revenues and \$912,990 in expenditures. During fiscal year 2004, the IDA VI-B fund's fund balance decreased \$19,378 to a deficit of \$(19,378). The deficit balance is a result of accruing wage and benefit obligations in accordance with GAAP.

Miscellaneous Federal Grants Fund

The miscellaneous federal grants fund had \$334,101 in revenues and \$214,399 in expenditures. During fiscal year 2004, the miscellaneous federal grants fund's deficit decreased \$119,702 from \$(269,993) to \$(150,291).

General Fund Budgeting Highlights

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the Center amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources of \$7,764,961 were decreased to \$7,377,988 in the final budget. Actual revenues and other financing sources for fiscal 2004 was \$7,203,493. This represents a \$174,495 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,849,467 were increased to \$8,203,663 in the final appropriations. The actual budget basis expenditures for fiscal year 2004 totaled \$7,801,583, which was \$402,080 less than the final budget appropriations.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Center had \$1,121,255 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 61,900	\$ 61,900
Land improvements	5,556	6,791
Building and improvements	691,688	731,991
Furniture and equipment	246,542	152,579
Vehicles	115,569	133,955
Total	\$ 1,121,255	\$ 1,087,216

The overall increase in capital assets of \$34,039 is due to capital outlays of \$148,112 exceeding depreciation expense of \$114,073 in the fiscal year.

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

Debt Administration

At June 30, 2004, the Center had \$679,821 in loans payable outstanding. Of this total, \$53,590 is due within one year and \$626,231 is due within greater than one year. The following table summarizes the loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
Loans payable	\$ 679,821	\$ 740,657
Total	\$ 679,821	\$ 740,657

See Note 10 to the basic financial statements for additional information on the Center's debt administration.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

Current Financial Related Activities

The Center relies heavily on contracts with local, city, and exempted school districts within Columbiana and Mahoning Counties, as well as state foundation revenue, and grants. The request for services from local, city, and exempted school districts, along with the Center's cash balance, will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2005. However, the future financial stability of the Center is not without concerns.

Currently, the legislation regarding Ohio's Regional Education Delivery System and the implementation of that by the Ohio Department of Education is in an ongoing process. This system will directly impact the Education Service Centers in Ohio and the method used to fund them. What effect this legislation will have on future state funding and on the Center's financial operations is uncertain at this time.

Declining enrollment in Columbiana County remains a concern of the Center. State funding is based on average daily membership of Columbiana County school districts. Continued decline in enrollment will have a direct impact on state revenues received by Columbiana County school districts and the amount of services they will need from the Center.

Each year, different services are needed by participating school districts. Therefore, the Center is constantly reviewing their program activity to provide services while maintaining a financially solvent operation.

The Center's systems of internal control and procedures are reviewed throughout the year by management to insure a cost efficient operation.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Penny Kale, Treasurer, Columbiana County Educational Service Center, 38720 Saltwell Road, Lisbon, Ohio 44432-8303.

BASIC
FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 687,798
Cash with fiscal agent.	793,637
Receivables:	
Accounts	5,914
Intergovernmental	507,587
Prepayments	11,654
Capital assets:	
Land	61,900
Depreciable capital assets, net	1,059,355
Total capital assets, net.	<u>1,121,255</u>
 Total assets.	 <u>3,127,845</u>
Liabilities:	
Accounts payable.	12,389
Accrued wages and benefits	759,417
Pension obligation payable.	86,406
Intergovernmental payable	25,560
Accrued interest payable	1,175
Claims payable.	157,897
Long-term liabilities:	
Due within one year.	179,906
Due within more than one year	901,159
 Total liabilities	 <u>2,123,909</u>
Net Assets:	
Invested in capital assets, net of related debt.	284,121
Restricted for:	
Capital projects	28,603
Unrestricted.	<u>691,212</u>
 Total net assets	 <u>\$ 1,003,936</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Instruction:						
Regular	\$ 213,203	\$ -	\$ 100,110	\$ -		\$ (113,093)
Special	759,791	427,132	2,007	-		(330,652)
Vocational	146	-	-	-		(146)
Support services:						
Pupil	1,957,499	1,091,460	23,535	-		(842,504)
Instructional staff	2,544,871	1,906,344	123,787	-		(514,740)
Board of education	22,549	-	-	-		(22,549)
Administration	475,038	264,871	-	-		(210,167)
Fiscal	193,683	-	2,217	-		(191,466)
Operations and maintenance	95,193	2,400	-	-		(92,793)
Pupil transportation	673,101	-	2,859	-		(670,242)
Central	823,737	-	3,000	25,338		(795,399)
Operation of non-instructional services	162,347	49,283	274,634	-		161,570
Intergovernmental pass-through	954,951	-	935,366	-		(19,585)
Interest and fiscal charges	32,430	-	-	-		(32,430)
Total governmental activities	\$ 8,908,539	\$ 3,741,490	\$ 1,467,515	\$ 25,338		(3,674,196)
General Revenues:						
Grants and entitlements not restricted						
to specific programs						3,123,777
Investment earnings						5,697
Miscellaneous						647
Total general revenues						3,130,121
Change in net assets						(544,075)
Net assets at beginning of year (restated)						1,548,011
Net assets at end of year						\$ 1,003,936

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>IDA VI-B</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 611,050	\$ -	\$ 19,158	\$ 45,939	\$ 676,147
Receivables:					
Accounts	5,785	-	129	-	5,914
Intergovernmental	140,998	218,483	138,306	9,800	507,587
Interfund receivable	364,484	-	-	-	364,484
Prepayments	11,654	-	-	-	11,654
Total assets	<u>\$ 1,133,971</u>	<u>\$ 218,483</u>	<u>\$ 157,593</u>	<u>\$ 55,739</u>	<u>\$ 1,565,786</u>
Liabilities:					
Accounts payable	\$ 9,320	\$ -	\$ -	\$ 3,069	\$ 12,389
Accrued wages and benefits	711,434	16,980	31,004	-	759,418
Pension obligation payable	77,765	-	4,341	-	82,106
Intergovernmental payable	21,570	2,398	1,050	541	25,559
Interfund payable	-	218,483	133,183	12,818	364,484
Deferred revenue	-	-	138,306	3,438	141,744
Total liabilities	<u>820,089</u>	<u>237,861</u>	<u>307,884</u>	<u>19,866</u>	<u>1,385,700</u>
Fund Balances:					
Reserved for encumbrances	122,417	-	1,668	608	124,693
Reserved for prepayments	11,654	-	-	-	11,654
Unreserved, undesignated (deficit), reported in:					
General fund	179,811	-	-	-	179,811
Special revenue funds	-	(19,378)	(151,959)	6,662	(164,675)
Capital projects funds	-	-	-	28,603	28,603
Total fund balances	<u>313,882</u>	<u>(19,378)</u>	<u>(150,291)</u>	<u>35,873</u>	<u>180,086</u>
Total liabilities and fund balances	<u>\$ 1,133,971</u>	<u>\$ 218,483</u>	<u>\$ 157,593</u>	<u>\$ 55,739</u>	<u>\$ 1,565,786</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	180,086
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,121,255
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Intergovernmental revenue	\$	141,744	
Total			141,744
An internal service funds are used by management to charge the costs of computer maintenance and other cost-reimbursed operations to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			647,391
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		243,931	
Pension obligation payable		4,300	
Capital lease obligations		157,313	
Loans payable		679,821	
Accrued interest payable		1,175	
Total			(1,086,540)
Net assets of governmental activities		\$	1,003,936

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

	General	IDA VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Tuition	\$ 3,198,940	\$ -	\$ -	\$ -	\$ 3,198,940
Earnings on investments	1,935	-	-	-	1,935
Rentals	2,400	-	-	-	2,400
Services provided to other entities	487,378	-	44,610	-	531,988
Extracurricular	-	-	-	302	302
Other local revenues	647	-	-	1,466	2,113
Intergovernmental - Intermediate	-	-	-	6,394	6,394
Intergovernmental - State	3,123,777	-	-	103,701	3,227,478
Intergovernmental - Federal	-	893,612	289,491	109,985	1,293,088
Total revenue	<u>6,815,077</u>	<u>893,612</u>	<u>334,101</u>	<u>221,848</u>	<u>8,264,638</u>
Expenditures:					
Current:					
Instruction:					
Regular	122,144	-	10,006	79,249	211,399
Special	705,657	-	-	5,841	711,498
Vocational	146	-	-	-	146
Support services:					
Pupil	1,909,122	-	-	16,672	1,925,794
Instructional staff	2,396,267	-	46,350	41,527	2,484,144
Board of education	22,013	-	-	-	22,013
Administration	465,480	-	-	-	465,480
Fiscal	184,400	-	-	4,931	189,331
Operations and maintenance	95,102	-	-	-	95,102
Pupil transportation	643,122	-	1,264	341	644,727
Central	692,512	-	-	128,597	821,109
Operation of non-instructional services	-	-	156,779	4,575	161,354
Intergovernmental pass-through	-	912,990	-	41,961	954,951
Capital outlay	123,617	-	-	-	123,617
Debt service:					
Principal retirement	82,440	-	-	-	82,440
Interest and fiscal charges	35,005	-	-	-	35,005
Total expenditures	<u>7,477,027</u>	<u>912,990</u>	<u>214,399</u>	<u>323,694</u>	<u>8,928,110</u>
Excess of revenues over (under) expenditures	<u>(661,950)</u>	<u>(19,378)</u>	<u>119,702</u>	<u>(101,846)</u>	<u>(663,472)</u>
Other financing sources:					
Proceeds from capital lease transaction	<u>123,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,617</u>
Total other financing sources	<u>123,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,617</u>
Net change in fund balances	(538,333)	(19,378)	119,702	(101,846)	(539,855)
Fund balances at beginning of year (restated)					
	852,215	-	(269,993)	137,719	719,941
Fund balances at end of year	<u>\$ 313,882</u>	<u>\$ (19,378)</u>	<u>\$ (150,291)</u>	<u>\$ 35,873</u>	<u>\$ 180,086</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA 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

Net change in fund balances - total governmental funds	\$	(539,855)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$148,112) exceeds depreciation expense (\$114,073) in the current period.		34,039
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		96,064
Repayment of loans and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		82,440
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on loans payable.		2,575
Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(123,617)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		9,573
The internal service funds used by management to charge the costs of computer maintenance and other cost-reimbursement operations to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		(105,294)
Change in net assets of governmental activities	\$	(544,075)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 3,618,922	\$ 3,438,570	\$ 3,264,950	\$ (173,620)
Earnings on investments	2,042	1,940	1,935	(5)
Rentals	2,526	2,400	2,400	-
Services provided to other entities	503,675	478,574	477,704	(870)
Intergovernmental - State	<u>3,291,475</u>	<u>3,127,442</u>	<u>3,127,442</u>	<u>-</u>
Total revenue	<u>7,418,640</u>	<u>7,048,926</u>	<u>6,874,431</u>	<u>(174,495)</u>
Expenditures:				
Current:				
Instruction:				
Regular	127,240	132,982	121,515	11,467
Special	1,320,153	1,379,723	751,591	628,132
Vocational	277	290	146	144
Support services:				
Pupil	1,795,542	1,876,563	1,864,461	12,102
Instructional staff	2,366,966	2,473,772	2,464,074	9,698
Board of education	28,420	29,702	29,293	409
Administration	443,996	464,031	455,232	8,799
Fiscal	183,275	191,545	183,064	8,481
Operations and maintenance	115,627	120,844	117,146	3,698
Pupil transportation	646,676	675,856	647,524	28,332
Central	725,085	757,803	710,726	47,077
Debt service:				
Principal retirement	58,209	60,836	60,836	-
Interest and fiscal charges	33,743	35,266	31,492	3,774
Total expenditures	<u>7,845,209</u>	<u>8,199,213</u>	<u>7,437,100</u>	<u>762,113</u>
Excess of revenues over (under) expenditures	<u>(426,569)</u>	<u>(1,150,287)</u>	<u>(562,669)</u>	<u>587,618</u>
Other financing sources (uses):				
Refund of prior year expenditure	82,077	77,987	77,987	-
Advances in	264,244	251,075	251,075	-
Advances (out)	-	-	(364,483)	(364,483)
Other miscellaneous uses of funds	<u>(4,258)</u>	<u>(4,450)</u>	<u>-</u>	<u>4,450</u>
Total other financing sources (uses)	<u>342,063</u>	<u>324,612</u>	<u>(35,421)</u>	<u>(360,033)</u>
Net change in fund balance	(84,506)	(825,675)	(598,090)	227,585
Fund balance at beginning of year	931,686	931,686	931,686	-
Prior year encumbrances appropriated	148,614	148,614	148,614	-
Fund balance at end of year	<u>\$ 995,794</u>	<u>\$ 254,625</u>	<u>\$ 482,210</u>	<u>\$ 227,585</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
IDA VI-B
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - Federal	\$ 900,172	\$ 900,172	\$ 675,129	\$ (225,043)
Total revenue	<u>900,172</u>	<u>900,172</u>	<u>675,129</u>	<u>(225,043)</u>
Expenditures:				
Current:				
Intergovernmental pass through	900,172	893,612	893,612	-
Total expenditures	<u>900,172</u>	<u>893,612</u>	<u>893,612</u>	<u>-</u>
Excess of revenues over (under) expenditures.	<u>-</u>	<u>6,560</u>	<u>(218,483)</u>	<u>(225,043)</u>
Other financing sources:				
Advances in.	-	-	218,483	218,483
Total other financing sources	<u>-</u>	<u>-</u>	<u>218,483</u>	<u>218,483</u>
Net change in fund balance	-	6,560	-	(6,560)
Fund balance at beginning of year.	-	-	-	-
Prior year encumbrances appropriated . .	-	-	-	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ 6,560</u>	<u>\$ -</u>	<u>\$ (6,560)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MISCELLANEOUS FEDERAL GRANTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Services provided to other entities	\$ 44,000	\$ 44,000	\$ 44,610	\$ 610
Intergovernmental - Federal	180,080	280,000	289,491	9,491
Total revenue	<u>224,080</u>	<u>324,000</u>	<u>334,101</u>	<u>10,101</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,006	10,811	10,811	-
Support services:				
Instructional staff	45,796	82,437	45,394	37,043
Administration	7,127	12,829	-	12,829
Pupil transportation	1,167	2,100	2,100	-
Operation of non-instructional services	164,182	295,544	170,541	125,003
Total expenditures	<u>224,278</u>	<u>403,721</u>	<u>228,846</u>	<u>174,875</u>
Excess of revenues over (under) expenditures	<u>(198)</u>	<u>(79,721)</u>	<u>105,255</u>	<u>184,976</u>
Other financing sources (uses):				
Transfers in	-	-	31,883	31,883
Transfers (out)	-	-	(31,883)	(31,883)
Advances in	-	-	134,731	134,731
Advances (out)	-	-	(227,242)	(227,242)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(92,511)</u>	<u>(92,511)</u>
Net change in fund balance	(198)	(79,721)	12,744	92,465
Fund balance at beginning of year	4,548	4,548	4,548	-
Prior year encumbrances appropriated	198	198	198	-
Fund balance at end of year	<u>\$ 4,548</u>	<u>\$ (74,975)</u>	<u>\$ 17,490</u>	<u>\$ 92,465</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Governmental Activities - Internal Service Funds
Assets:	
Current:	
Equity in pooled cash and cash equivalents.	\$ 11,651
Cash with fiscal agent.	<u>793,637</u>
 Total assets	 <u>805,288</u>
Liabilities:	
Current:	
Claims payable	<u>157,897</u>
 Total liabilities	 <u>157,897</u>
Net assets:	
Unrestricted.	<u>647,391</u>
 Total net assets	 <u><u>\$ 647,391</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Funds
Operating revenues:	
Sales/charges for services	1,520,632
Total operating revenues	<u>1,520,632</u>
Operating expenses:	
Purchased services	117,409
Materials and supplies	70
Other	1,175
Claims	1,511,034
Total operating expenses	<u>1,629,688</u>
Operating loss	<u>(109,056)</u>
Nonoperating revenues:	
Interest revenue	<u>3,762</u>
Total nonoperating revenues	<u>3,762</u>
Change in net assets	(105,294)
Net assets at beginning of year	<u>752,685</u>
Net assets at end of year	<u><u>\$ 647,391</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 1,520,632
Cash payments for purchased services	(117,409)
Cash payments for materials and supplies.	(70)
Cash payments for other expenses	(1,175)
Cash payments for claims	(1,429,885)
Net cash used in operating activities	(27,907)
Cash flows from investing activities:	
Interest received	3,762
Net cash provided by investing activities	3,762
Net decrease in cash and cash equivalents	(24,145)
Cash and cash equivalents at beginning of year . . .	829,433
Cash and cash equivalents at end of year	\$ 805,288
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (109,056)
Changes in assets and liabilities:	
Increase in claims payable.	81,149
Net cash used in operating activities	\$ (27,907)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 19,471
Receivables:	
Intergovernmental	45
Total assets.	\$ 19,516
Liabilities:	
Accounts payable.	\$ 68
Intergovernmental payable	6,004
Due to students	13,444
Total liabilities	\$ 19,516

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Columbiana County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the Center's support facilities staffed by 87 non-certificated and 66 certificated teaching personnel, and 2 administrators who provide services to 16,977 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, preschool and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organizations; resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship to the Center:

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS is a jointly governed organization among 22 school districts and 2 county educational service centers. ACCESS was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge dependent upon the software package utilized. ACCESS is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the Center does not have any equity interest in ACCESS. Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 104, Youngstown, Ohio 44512-7019.

INSURANCE PURCHASING POOL

Columbiana County Employees Insurance Consortium

Columbiana County Employees Insurance Consortium is a shared risk pool. The consortium provides services to the six member schools including health, dental, prescription drug and life insurance. The Board of Directors is comprised of the Superintendent from each District. All claims are processed through a third-party administrator, and the fiscal agent and budgeting authority is East Palestine City School District. Financial information can be obtained by writing to the East Palestine City School District, 166 East North Avenue, East Palestine, Ohio 44413.

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

Each year, the participating school districts pay an enrollment fee to Sheakley Uniserve, Inc. to cover the costs of administering the program. The Center paid \$2,693 in administrative fees during fiscal 2004.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

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

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

IDA VI-B - This fund is used to account for the pass through of grants to assist states in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

Miscellaneous Federal Grants - This fund is used to account for various monies received from federal agencies which are not classified elsewhere in accordance with the Uniform School Accounting System. The grants included here include the Americorps Grant and the Safe and Drug Free Grant.

Other governmental funds of the Center are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector. The Center has no enterprise funds. The following is a description of the Center's internal service funds:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service funds of the Center account for a self-insurance program which provides medical/surgical, dental, vision and life benefits to employees, to account for a computer maintenance program and to account for local school district training provided on a cost-reimbursement basis.

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 Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for student activities and monies held and due to other school districts.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the Center. 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, and all nonmajor funds are aggregated into one column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service funds are charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

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

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

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. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, grants and student fees.

Deferred Revenue - 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.

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

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code. Annually, on or before of date designated by the State Board of Education, each Educational Service Center prepares a budget of operating expenditures for the ensuing year on forms prepared and furnished by the State Board of Education, together with such other information as the Board may require. The Budget consists of two parts. Part (A) includes the cost of the salaries, employer's retirement contributions and travel costs of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Center. The State Board of Education reviews the budget.

Estimated Resources

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represents the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year as projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the Governing Board.

Appropriations

The annual Appropriation Resolution must be legally enacted by the Governing Board at the fund, function, and object level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Governing Board may pass a temporary appropriation measure to meet the ordinary expenses of the Center. The Appropriation Resolution, by fund, must be within the estimated resources and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of budgetary control. Any revisions that alter the legal level of budgetary control must be approved by the Governing Board.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Board of Education. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures, which appear in the statement of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations that were approved by the Governing Board prior to June 30, 2004. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Lapsing of Appropriations

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

F. Cash and Investments

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

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

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

During fiscal year 2004, investments were limited to repurchase agreements which are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board, investment earnings are assigned to the general fund and the self-insurance internal service fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$1,935, which includes \$286 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at year-end is provided in Note 4.

G. Pass Through Grants

The Center is the primary recipient of grants, which are passed-through to or spent on behalf of the local school districts within the County. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Center has no financial or administrative role and are passed-through to the local school district in the County are reported in an agency fund.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the Center increased its capitalization threshold from \$150 to \$1,000 and had a reappraisal of the Center's capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The Center does not possess infrastructure.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the Center consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the termination method. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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 expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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. Loans are recognized as a liability on the fund financial statements when due.

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

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are charges for services for the employee self-insurance program, computer maintenance operations and training programs provided for local school districts. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund

N. Net Assets

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

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Estimates

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

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

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the Center has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity".

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the Center's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the elimination of the internal service funds and the conversion to the accrual basis of accounting.

Governmental Activities - Restatement of Fund Balance - It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The implementation of GASB Interpretation No. 6 had the following effect on the Center's governmental fund balances as previously reported:

	<u>General</u>	<u>IDA VI-B</u>	<u>Miscellaneous Federal Grants</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 812,914	\$ -	\$ (269,993)	\$ 137,719	\$ 680,640
Implementation of GASB Interpretation No. 6	<u>39,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,301</u>
Restated fund balance, June 30, 2003	<u>\$ 852,215</u>	<u>\$ -</u>	<u>\$ (269,993)</u>	<u>\$ 137,719</u>	<u>\$ 719,941</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 719,941
GASB 34 adjustments:	
Long-term (deferred) assets	45,680
Capital assets	1,087,216
Accrued interest payable	(3,750)
Pension obligation	(35,630)
Long-term liabilities	(1,018,131)
Internal service funds	<u>752,685</u>
Governmental activities net assets, June 30, 2003	<u>\$ 1,548,011</u>

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Funds</u>	
IDA VI-B	\$ 19,378
Miscellaneous Federal Grants	150,291
<u>Nonmajor Funds</u>	
Alternative School Grant	1,341
Preschool Incentive Grant	217
Management Information Systems	15
Opportunity Center	4,770

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the Center into three categories.

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

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

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

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

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the Center had \$100 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with Fiscal Agent: The Center is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$793,637.

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".

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the Center's deposits was \$(8,910) and the bank balance was \$128,104. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the Center's bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of monies into overnight repurchase agreements, which are reported as "investments". Of the bank balance:

1. \$126,502 was covered by federal depository insurance; and
2. \$1,602 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

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

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$ 716,079</u>	<u>\$ 716,079</u>	<u>\$ 716,079</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 1,500,906	\$ -
Investments of the cash management pool:		
Repurchase agreement	(716,079)	716,079
Cash on hand	(100)	-
Cash with fiscal agent	(793,637)	-
GASB Statement No. 3	<u>\$ (8,910)</u>	<u>\$ 716,079</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 12,818
General	IDA VI-B	218,483
General	Miscellaneous federal grants	<u>133,183</u>
Total		<u>\$ 364,484</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

NOTE 6 - STATE FUNDING

The Center is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM- the total number of pupils under the Center's supervision) is apportioned by the State Board of Education from the participating school districts to which the Center provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the Center.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Accounts	\$ 5,914
Intergovernmental	<u>507,587</u>
Total	<u>\$ 513,501</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES - (Continued)

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to changes in the Center's capital asset policy and to a reappraisal of the Center's capital assets. See Note 2.H. for detail:

	<u>Balance</u> <u>06/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>07/01/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 61,900	\$ 61,900
Total capital assets, not being depreciated	<u>-</u>	<u>61,900</u>	<u>61,900</u>
Capital assets, being depreciated:			
Land improvements	-	24,695	24,695
Buildings and improvements	975,000	291,281	1,266,281
Furniture and equipment	1,401,075	(1,132,839)	268,236
Vehicles	<u>468,029</u>	<u>(50,500)</u>	<u>417,529</u>
Total capital assets, being depreciated	<u>2,844,104</u>	<u>(867,363)</u>	<u>1,976,741</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(951,425)</u>	<u>(951,425)</u>
Governmental activities capital assets, net	<u>\$ 2,844,104</u>	<u>\$ (1,756,888)</u>	<u>\$ 1,087,216</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS - (Continued)

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

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 61,900	\$ -	\$ -	\$ 61,900
Total capital assets, not being depreciated	<u>61,900</u>	<u>-</u>	<u>-</u>	<u>61,900</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	24,695	-	-	24,695
Buildings and improvements	1,266,281	-	-	1,266,281
Furniture and equipment	268,236	132,012	-	400,248
Vehicles	417,529	16,100	-	433,629
Total capital assets, being depreciated	<u>1,976,741</u>	<u>148,112</u>	<u>-</u>	<u>2,124,853</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(17,904)	(1,235)	-	(19,139)
Buildings and improvements	(534,290)	(40,303)	-	(574,593)
Furniture and equipment	(115,657)	(38,049)	-	(153,706)
Vehicles	(283,574)	(34,486)	-	(318,060)
Total accumulated depreciation	<u>(951,425)</u>	<u>(114,073)</u>	<u>-</u>	<u>(1,065,498)</u>
Governmental activities capital assets, net	<u>\$ 1,087,216</u>	<u>\$ 34,039</u>	<u>\$ -</u>	<u>\$ 1,121,255</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 1,419
Special	10,159

Support Services:

Pupil	126
Instructional staff	59,110
Board of Education	522
Administration	394
Fiscal	686
Pupil transportation	34,727
Central	<u>6,930</u>
Total depreciation expense	<u>\$ 114,073</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal 2004, the Center entered into a capitalized lease for copier equipment. In addition, in prior years, the Center has entered into capital leases for additional copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement 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 financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital fixed assets consisting of equipment have been capitalized in the amount of \$214,788. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$21,604 paid by the general fund.

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

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2005	\$ 53,677
2006	45,429
2007	31,518
2008	31,518
2009	<u>31,518</u>
Total minimum lease payments	193,660
Less: amount representing interest	<u>(36,347)</u>
Total	<u>\$ 157,313</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The balance of the Center's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased from \$182,873 to \$222,174 due to the implementation of GASB Interpretation No. 6. Pension obligations of \$35,630 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. In addition, loans payable have been restated by \$24,272 from \$716,385 to \$740,657 to properly reflect the balance outstanding at June 30, 2003. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$27,943 from \$990,188 to \$1,018,131. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Loan payable	\$ 740,657	\$ -	\$ (60,836)	\$ 679,821	\$ 53,590
Capital lease obligations	55,300	123,617	(21,604)	157,313	40,252
Compensated absences	<u>222,174</u>	<u>129,203</u>	<u>(107,446)</u>	<u>243,931</u>	<u>86,064</u>
Total long-term obligations, governmental activities	<u>\$ 1,018,131</u>	<u>\$ 252,820</u>	<u>\$ (189,886)</u>	<u>\$ 1,081,065</u>	<u>\$ 179,906</u>

Compensated absences and intergovernmental will be paid from the fund from which the employee is paid.

The loan payable was issued for the acquisition of the Center's building. The loan was issued on March 12, 2002 and matures with a balloon payment due on March 15, 2009. The loan bears an interest rate of 4.02% and is being repaid from the general fund.

The capital lease obligations will be paid from the general fund. See Note 9 for detail.

- B. The following is a summary of the Center's future annual debt service requirements to maturity for the loan payable:

<u>Year Ending June 30</u>	<u>Principal on Loan</u>	<u>Interest on Loan</u>	<u>Total</u>
2005	\$ 53,590	\$ 24,532	\$ 78,122
2006	60,823	24,401	85,224
2007	63,349	21,875	85,224
2008	65,928	19,296	85,224
2009	<u>436,131</u>	<u>12,612</u>	<u>448,743</u>
Total	<u>\$ 679,821</u>	<u>\$ 102,716</u>	<u>\$ 782,537</u>

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the Center contracted with The Cincinnati Insurance Company for property insurance and The Ohio Schools Plan for general liability insurance.

Professional liability is protected by the Nationwide Insurance Company with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by The Ohio School Plan and holds a deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability for property damage and bodily injury, and \$5,000 medical payment coverage per person. Settled claims have not exceeded this coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Employee Group Medical, Dental, Vision and Life Insurance

Medical, dental, vision and life insurance is offered to employees through a self-insurance internal service fund. The Center is a member of a shared risk pool, consisting of several Centers within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims in the Center's behalf. The claims liability of \$157,897 reported in the internal service fund at June 30, 2004, is based on an estimate provided by Self Funded Plans, Inc. (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 76,748	\$ 1,511,034	\$ (1,429,885)	\$ 157,897
2003	86,094	1,234,088	(1,243,434)	76,748

C. Workers' Compensation

The Center participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT - (Continued)

The workers' compensation experience of the participating 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 districts that can meet the GRP's selection criteria. The firm of The Sheakley Group of Companies provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The 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% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14% of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 adequacy of the contribution rates is determined annually. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$185,713, \$140,014, and \$89,216, respectively; equal to their required contributions for each year.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14% of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions. The Center's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$425,948, \$381,770, and \$262,293, respectively; equal to the required contribution for each year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, one member of the Board of Education has elected Social Security. The Board's liability is 6.20 percent of wages paid.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the Center, this amount equaled \$32,765 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the Center, the amount to fund health care benefits, including surcharge, equaled \$135,944 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and all major special revenue funds 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 the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue funds is as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>IDA VI-B</u>	<u>Miscellaneous Federal Grants</u>
Budget basis	\$ (598,090)	\$ -	\$ 12,744
Net adjustment for revenue accruals	(59,354)	218,483	-
Net adjustment for expenditure accruals	(168,767)	(19,378)	12,779
Net adjustment for other sources/uses	159,038	(218,483)	92,511
Adjustment for encumbrances	<u>128,840</u>	<u>-</u>	<u>1,668</u>
GAAP basis	<u>\$ (538,333)</u>	<u>\$ (19,378)</u>	<u>\$ 119,702</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The Center is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY, OHIO**

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

NOTE 15 - CONTINGENCIES - (Continued)

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Center is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 16 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees, administrator and supervisors earn five to twenty days of vacation per year depending upon length of service. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days.

B. Medical Insurance

The Center maintains a health and welfare plan that provides medical, dental, vision and prescription drug card benefits. The monthly family and single premium for medical, dental, vision and life insurance is \$1,057.20 and \$412.20, respectively. These premiums are paid to the Columbiana County Self-Insurance Consortium.

C. Life Insurance

The Center provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided by the Columbiana County Self-Insurance Consortium.

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COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER

COLUMBIANA COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States (IDEA Part B)	6B-SF-04	84.027	675,129	893,612
Special Education - Preschool Grant	PG-S1-03	84.173	1,800	
	PG-S1-04		41,961	41,961
Total Special Education - Preschool Grant			43,761	41,961
Safe and Drug Free Grant	T4-S1-02	84.184	1200	1630
	T4-S1-03		3,200	3,542
	T4-S1-04-P		1,729	8,398
	T4-S1-04		1,476	7,645
Total Safe and Drug Free Grant			7,605	21,215
Total Department of Education			726,495	956,788
<u>U.S. DEPARTMENT OF LABOR</u>				
<i>Passed Through Ohio Department of Education:</i>				
Alternative School / MCTA Grant	N/A	17.259	18,176	
			38,357	45,900
Total Alternative School / MCTA Grant			56,533	45,900
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
<i>Passed Through Ohio Corporation for National and Community Service:</i>				
Americorps 2001 Grant	N/A	94.006		1,549
Americorps 2002 Grant			107,446	15,941
Americorps 2003 Grant			178,841	45,459
Americorps 2004 Grant			39,000	165,676
Total Americorps Grant			325,287	228,625
Totals			\$1,108,315	\$1,231,313

The accompanying notes to this schedule are an integral part of this schedule.

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.



Auditor of State Betty Montgomery

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

Columbiana County Educational Service Center
Columbiana County
38720 Saltwall Road
Lisbon, Ohio 44432

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Columbiana County Educational Service Center, Columbiana County, (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements, and have issued our report thereon dated March 31, 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 Service Center'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 immaterial instance of noncompliance that we have reported to the Service Center's management in a separate letter dated March 31, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures 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. However, we noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the Service Center's management in a separate letter dated March 31, 2005.

Columbiana County Educational Service Center
Columbiana County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities, 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 31, 2005



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Columbiana County Educational Service Center
Columbiana County
38720 Saltwall Road
Lisbon, Ohio 44432

Compliance

We have audited the compliance of the Columbiana County Educational Service Center, Columbiana County, (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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Betty Montgomery
Auditor of State

March 31, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505**

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to State (Title VI-B) CFDA # 84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
Questioned Cost #1	OMB Circular A-87, The Educational Service Center reimbursed a Collaborative Research Team for expenses incurred for travel to educational conferences in Amsterdam, Holland.	No	Partially Corrected; The Educational Service Center is in the process of making monthly payments to ODE for the repayment of the expenses incurred for travel to educational conferences.



**Auditor of State
Betty Montgomery**

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COLUMBIANA COUNTY EDUCATIONAL SERVICE CENTER

COLUMBIANA 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 17, 2005**