



**Auditor of State
Betty Montgomery**

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund, the Morrison Scholarship and Miscellaneous Federal Grants, 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 fiscal year ended June 30, 2004, the Educational 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 May 27, 2005, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Educational Service Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures 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 Schedule of Federal Awards Receipts and Expenditures 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 whole.



Betty Montgomery
Auditor of State

May 27, 2005

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

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

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities increased \$141,848.
- General revenues accounted for \$648,681 in revenue or 12 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,836,320 or 88 percent of total revenues of \$5,485,001.
- Total assets of governmental activities increased \$274,625 due to the Educational Service Center increasing their program charges and providing additional special education services to their local, city and exempted village school districts.
- The Educational Service Center had \$5,343,153 in expenses related to governmental activities; \$4,836,320 of these expenses were offset by program specific charges for services, grants and contributions which were adequate to provide for these activities. General revenues of \$648,681 were not adequate to provide for these programs.
- The Educational Service Center's major funds consist of the General Fund and the Morrison Scholarship and Miscellaneous Federal Grants Special Revenue Funds. The General Fund had \$4,836,969 in revenues and \$4,693,054 in expenditures. The General Fund's balance increased \$143,915. The Morrison Scholarship Special Revenue Fund had \$1,800 in revenues and \$3,295 in expenditures. The Morrison Scholarship Special Revenue Fund's balance decreased \$1,495. The Miscellaneous Federal Grants Special Revenue Fund had \$355,904 in revenues and \$339,932 in expenditures. The Miscellaneous Federal Grants Special Revenue Fund's balance increased \$15,972.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Guernsey/Monroe/Noble Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

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

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major Governmental Funds are the General Fund, the Morrison Scholarship and Miscellaneous Federal Grants Special Revenue Funds.

Governmental Funds Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal 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 statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003.

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets		
Current and Other Assets	<u>\$2,041,125</u>	<u>\$1,766,500</u>
Total Assets	<u>2,041,125</u>	<u>1,766,500</u>
Liabilities		
Long-Term Liabilities	133,343	112,350
Other Liabilities	<u>562,960</u>	<u>451,176</u>
Total Liabilities	<u>696,303</u>	<u>563,526</u>
Net Assets		
Restricted for Other Purposes	380,613	289,362
Unrestricted	<u>964,209</u>	<u>913,612</u>
Total Net Assets	<u><u>\$1,344,822</u></u>	<u><u>\$1,202,974</u></u>

Total assets increased \$274,625. The majority of the increase was due to an increase in overall cash of \$229,748. During fiscal year 2004, the Educational Service Center increased its charge for services in addition to providing more special education services to the local school districts.

Total liabilities increased \$132,777. The majority of this increase was due to an increase in accrued wages and benefits payable of \$71,809, as well as increases in intergovernmental payable and vacation benefits payable of \$23,999 and \$18,056, respectively. A 2 percent salary increase along with step increases are the reasons for most of this payroll-related change.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the Guernsey/Monroe/Noble Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

Table 2
Changes in Net Assets

	<u>Governmental Activities - 2004</u>
Revenues	
Program Revenues	
Charges for Services	\$2,758,128
Operating Grants and Contributions	2,078,192
Total Program Revenues	<u>4,836,320</u>
General Revenue	
Grants and Entitlements	627,160
Investment Earnings	8,679
Miscellaneous	12,842
Total General Revenues	<u>648,681</u>
Total Revenues	<u>5,485,001</u>
Program Expenses	
Instruction	
Regular	188,890
Special	1,354,341
Vocational	37,991
Adult/Continuing	31,815
Support Services	
Pupil	1,514,304
Instructional Staff	1,332,052
Board of Education	26,420
Administration	552,796
Fiscal	195,201
Operation and Maintenance of Plant	7,592
Pupil Transportation	10,273
Central	15,248
Operation of Non-Instructional Services	4,519
Extracurricular Activities	71,711
Total Expenses	<u>5,343,153</u>
Change in Net Assets	141,848
Net Assets Beginning of Year (See Note 3)	<u>1,202,974</u>
Net Assets End of Year	<u><u>\$1,344,822</u></u>

During fiscal year 2004, the Educational Service Center showed an increase in net assets of \$141,848. However, the Educational Service Center relies heavily upon special education programs and services provided to local, city and exempted village school districts. As long as the charge for the service does not exceed the school districts' ability or willingness to continue to purchase special education services, revenues should continue to increase.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted revenue. Comparisons to 2003 have not been made since they are not available.

**Table 3
Governmental Activities**

	2004	2004
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program Expenses		
Instruction:		
Regular	\$188,890	(\$9,880)
Special	1,354,341	857,479
Vocational	37,991	(16,333)
Adult/Continuing	31,815	(13,626)
Support Services:		
Pupil	1,514,304	(432,020)
Instructional Staff	1,332,052	(539,220)
Board of Education	26,420	(11,471)
Administration	552,796	(233,784)
Fiscal	195,201	(61,047)
Operation and Maintenance of Plant	7,592	(3,327)
Pupil Transportation	10,273	(4,503)
Central	15,248	(4,694)
Operation of Non-Instructional Services	4,519	(3,295)
Extracurricular Activities	71,711	(31,112)
Totals	<u><u>\$5,343,153</u></u>	<u><u>(\$506,833)</u></u>

Instruction programs comprise approximately 30 percent of total governmental program expenses, support services comprise approximately 69 percent of total governmental program expenses, and extracurricular activities comprise approximately 1 percent of total governmental program expenses. Of the instruction expenses, approximately 84 percent is for special instruction. Of the support services expenses, approximately 41 percent is for pupils, 36 percent for instructional staff, and 15 percent for administration.

The Educational Service Center's Major Funds

The Education Service Center has three major funds: the General Fund and the Morrison Scholarship and Miscellaneous Federal Grants Special Revenue Funds. The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$4,836,969 and expenditures of \$4,693,054. The Morrison Scholarship Special Revenue Fund had total revenues of \$1,800 and expenditures of \$3,295. The Miscellaneous Federal Grants Special Revenue Fund had total revenues of \$355,904 and expenditures of \$339,932.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education and is based on cash receipts, disbursements and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level.

Economic Factors

The Guernsey/Monroe/Noble Educational Service Center's net assets increased by \$141,848, however, as the preceding information shows, the Educational Service Center relies heavily on the special education services it provides to its local, city and exempted village school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the school districts who contract for special education services with the Educational Service Center will continue to have an impact on the increase or decrease in revenues of the Educational Service Center.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, districts, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Mark Lucas, Treasurer at the Guernsey/Monroe/Noble Educational Service Center, National City Bank Building – 3rd Floor, 749 Wheeling Avenue, Cambridge, Ohio 43725. You may also E-mail the treasurer at gc_mark@omeresanet.net.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,298,679
Cash and Cash Equivalents with Fiscal Agent	138,875
Accounts Receivable	15,939
Intergovernmental Receivable	541,442
Prepaid Items	<u>46,190</u>
 Total Assets	 <u>2,041,125</u>
Liabilities	
Accounts Payable	6,732
Accrued Wages and Benefits Payable	376,578
Intergovernmental Payable	86,976
Vacation Benefits Payable	80,245
Claims Payable	12,429
Long-Term Liabilities:	
Due Within One Year	22,317
Due in More Than One Year	<u>111,026</u>
 Total Liabilities	 <u>696,303</u>
Net Assets	
Restricted for Other Purposes	380,613
Unrestricted	<u>964,209</u>
 Total Net Assets	 <u><u>\$1,344,822</u></u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues		Net Revenue (Expense) and Change in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities			
Instruction:			
Regular	\$188,890	\$154,903	\$24,107
Special	1,354,341	713,702	1,498,118
Vocational	37,991	21,171	487
Adult/Continuing	31,815	17,780	409
Support Services:			
Pupils	1,514,304	655,338	426,946
Instructional Staff	1,332,052	706,937	85,895
Board of Education	26,420	14,489	460
Administration	552,796	300,263	18,749
Fiscal	195,201	116,665	17,489
Operation and Maintenance of Plant	7,592	4,169	96
Pupil Transportation	10,273	5,641	129
Central	15,248	7,384	3,170
Operation of Non-Instructional Services	4,519	0	1,224
Extracurricular Activities	71,711	39,686	913
Total Governmental Activities	\$5,343,153	\$2,758,128	\$2,078,192
General Revenue			
Grants and Entitlements not Restricted to Specific Programs			627,160
Investment Earnings			8,679
Miscellaneous			12,842
Total General Revenues			648,681
Change in Net Assets			141,848
Net Assets Beginning of Year - See Note 3			1,202,974
Net Assets End of Year			\$1,344,822

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Morrison Scholarship</u>	<u>Miscellaneous Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$997,203	\$261,046	\$5,407	\$35,023	\$1,298,679
Accounts Receivable	15,589	0	0	350	15,939
Intergovernmental Receivable	410,084	0	80,762	50,596	541,442
Prepaid Items	43,321	0	1,649	1,220	46,190
Total Assets	<u><u>\$1,466,197</u></u>	<u><u>\$261,046</u></u>	<u><u>\$87,818</u></u>	<u><u>\$87,189</u></u>	<u><u>\$1,902,250</u></u>
Liabilities					
Accounts Payable	\$2,263	\$0	\$0	\$4,469	\$6,732
Accrued Wages and Benefits Payable	349,274	0	20,475	6,829	376,578
Intergovernmental Payable	44,694	0	1,039	16,968	62,701
Deferred Revenue	197,218	0	48,820	0	246,038
Total Liabilities	<u>593,449</u>	<u>0</u>	<u>70,334</u>	<u>28,266</u>	<u>692,049</u>
Fund Balances					
Reserved for Encumbrances	337	0	0	2,141	2,478
Unreserved, Undesignated Reported in:					
General Fund	872,411	0	0	0	872,411
Special Revenue Funds	0	261,046	17,484	56,782	335,312
Total Fund Balances	<u>872,748</u>	<u>261,046</u>	<u>17,484</u>	<u>58,923</u>	<u>1,210,201</u>
Total Liabilities and Fund Balances	<u><u>\$1,466,197</u></u>	<u><u>\$261,046</u></u>	<u><u>\$87,818</u></u>	<u><u>\$87,189</u></u>	

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

Long-term assets (grants) are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	246,038
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available resources and, therefore, not reported in the funds	(24,275)
Vacation benefits payable is recognized for earned vacation benefits that are to be used within one year and therefore are not reported in the funds.	(80,245)
Compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	(133,343)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>126,446</u>
Net Assets of Governmental Activities	<u><u>\$1,344,822</u></u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Morrison Scholarship	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$1,927,418	\$	\$355,904	\$206,366	\$2,489,688
Interest	5,958	1,800	0	0	7,758
Contract Services	2,901,014	0	0	159,494	3,060,508
Gifts and Donations	2,000	0	0	1,224	3,224
Miscellaneous	579	0	0	0	579
Total Revenues	4,836,969	1,800	355,904	367,084	5,561,757
Expenditures					
Current:					
Instruction:					
Regular	103,040	0	2,374	85,905	191,319
Special	1,286,618	0	0	80,008	1,366,626
Vocational	38,556	0	0	0	38,556
Adult/Continuing	32,293	0	0	0	32,293
Support Services:					
Pupils	1,156,663	0	324,521	28,279	1,509,463
Instructional Staff	1,249,286	0	0	96,224	1,345,510
Board of Education	26,296	0	0	124	26,420
Administration	533,878	0	0	12,009	545,887
Fiscal	163,246	0	13,037	16,734	193,017
Operation and Maintenance of Plant	7,592	0	0	0	7,592
Pupil Transportation	10,273	0	0	0	10,273
Central	13,448	0	0	1,800	15,248
Operation of Non-Instructional Services	0	3,295	0	1,224	4,519
Extracurricular Activities	71,865	0	0	0	71,865
Total Expenditures	4,693,054	3,295	339,932	322,307	5,358,588
Net Change in Fund Balances	143,915	(1,495)	15,972	44,777	203,169
Fund Balances Beginning of Year - Restated (See Note 3)	728,833	262,541	1,512	14,146	1,007,032
Fund Balances End of Year	<u>\$872,748</u>	<u>\$261,046</u>	<u>\$17,484</u>	<u>\$58,923</u>	<u>\$1,210,201</u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
 Reconciliation of the 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 \$203,169

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

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

Contract Services	(129,442)	
Grants	39,502	
Total	(89,940)	(89,940)

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Intergovernmental Payable	(5,678)	
Vacation Benefits Payable	(18,056)	
Compensated Absences Payable	(20,993)	
Total	(44,727)	(44,727)

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net expenses of the internal service fund is allocated among governmental activities.

73,346

Changes in Net Assets of Governmental Activities

\$141,848

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$2,024,595	\$1,977,965	\$1,977,965	\$
Interest	5,000	6,000	5,958	(42)
Contract Services	2,871,470	2,891,440	2,843,458	(47,982)
Gifts and Donations	0	2,000	2,000	0
Total Revenues	4,901,065	4,877,405	4,829,381	(48,024)
Expenditures				
Current:				
Instruction:				
Regular	111,974	110,347	96,468	13,879
Special	1,298,335	1,283,082	1,274,590	8,492
Vocational	38,281	38,281	38,230	51
Adult/Continuing	38,659	33,220	32,580	640
Support Services:				
Pupils	1,251,050	1,177,595	1,137,488	40,107
Instructional Staff	1,295,997	1,319,103	1,246,317	72,786
Board of Education	59,319	48,242	27,418	20,824
Administration	588,235	625,838	528,561	97,277
Fiscal	194,942	189,671	161,614	28,057
Operation and Maintenance of Plant	146,500	146,500	7,337	139,163
Pupil Transportation	8,650	8,650	8,015	635
Central	0	14,003	13,446	557
Extracurricular Activities	71,386	71,386	71,266	120
Total Expenditures	5,103,328	5,065,918	4,643,330	422,588
Excess of Revenues Over/ (Under) Expenditures	(202,263)	(188,513)	186,051	374,564
Other Financing Sources/(Uses)				
Refund of Prior Year Expenditures	0	0	579	579
Advances In	0	24,972	24,972	0
Other Financing Uses	(537,748)	(621,721)	0	621,721
Total Other Financing Sources/(Uses)	(537,748)	(596,749)	25,551	622,300
Net Change in Fund Balance	(740,011)	(785,262)	211,602	996,864
Fund Balance Beginning of Year	785,162	785,162	785,162	0
Prior Year Encumbrances Appropriated	100	100	100	0
Fund Balance End of Year	\$45,251	\$0	\$996,864	\$996,864

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Morrison Scholarship Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Interest	\$3,000	\$3,000	\$2,061	(\$939)
Expenditures				
Current:				
Support Services:				
Operation of Non-Instructional Services	3,500	3,559	3,295	264
Net Change in Fund Balance	(500)	(559)	(1,234)	(675)
Fund Balance Beginning of Year	262,280	262,280	262,280	0
Fund Balance End of Year	\$261,780	\$261,721	\$261,046	(\$675)

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Miscellaneous Federal Grants Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$401,634	\$404,724	\$323,962	(\$80,762)
Expenditures				
Current:				
Instruction:				
Regular	1,722	5,125	2,022	3,103
Support Services:				
Pupils	385,567	384,001	305,038	78,963
Instructional Staff	4,016	3,300	0	3,300
Fiscal	12,051	14,020	13,217	803
Total Expenditures	403,356	406,446	320,277	86,169
Net Change in Fund Balance	(1,722)	(1,722)	3,685	5,407
Fund Balance Beginning of Year	1,722	1,722	1,722	0
Fund Balance End of Year	\$0	\$0	\$5,407	\$5,407

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Fund Net Assets
Health Self-Insurance Internal Service Fund
June 30, 2004

Current Assets

Cash and Cash Equivalents with Fiscal Agent	<u>\$138,875</u>
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Total Assets	<u>138,875</u>
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Current Liabilities

Claims Payable	<u>12,429</u>
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Total Liabilities	<u>12,429</u>
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Net Assets

Unrestricted	<u><u>\$126,446</u></u>
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See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Revenues, Expenses

and Changes in Fund Net Assets

Health Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2004

Operating Revenues

Charges for Services	\$497,844
Other Revenues	12,263

Total Operating Revenues 510,107

Operating Expenses

Purchased Services	134,105
Claims	303,577

Total Operating Expenses 437,682

Operating Income 72,425

Non-Operating Revenues

Interest	921
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Change in Net Assets 73,346

Net Assets Beginning of Year - See Note 3 53,100

Net Assets End of Year \$126,446

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Cash Flows

Health Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Transactions with Other Funds	\$497,844
Other Cash Receipts	12,263
Cash Payments for Goods and Services	(134,105)
Cash Payments for Claims	<u>(305,965)</u>

Net Cash Provided by Operating Activities 70,037

Cash Flows from Investing Activities

Interest on Investments	<u>921</u>
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Net Increase in Cash and Cash Equivalents 70,958

Cash and Cash Equivalents Beginning of Year 67,917

Cash and Cash Equivalents End of Year \$138,875

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income \$72,425

Decrease in Claims Payable (2,388)

Net Cash Provided by Operating Activities \$70,037

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2004

Assets

Cash and Cash Equivalents in Segregated Accounts	<u>\$1,419</u>
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Total Assets	<u><u>\$1,419</u></u>
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Liabilities

Undistributed Monies	<u>\$1,419</u>
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Total Liabilities	<u><u>\$1,419</u></u>
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See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

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

The Guernsey/Monroe/Noble Educational Service Center, Guernsey County (the Educational Service Center), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Educational Service Center is a combined educational service center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Cambridge City, Caldwell Exempted Village, East Guernsey Local, Noble Local, Rolling Hills Local, and Switzerland of Ohio Local School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large. Members are elected to staggered four year terms. The Educational Service Center has 76 certificated and 52 non-certificated employees that provide services to the school districts.

Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. No separate governmental units meet the criteria for inclusion as a component unit.

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), and the Coalition of Rural and Appalachian Schools (CORAS), which are defined as jointly governed organizations; the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Ohio School Plan, which are defined as insurance purchasing pools; and the Ohio Mid-Eastern Regional Educational Service Agency (OMEA-RESA) Self-Insurance Program, which is defined as a claims servicing pool. Additional information concerning these organizations is presented in Notes 14, 15, and 16 to the basic financial statements.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The activity of the Internal Service Fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within three categories: Governmental, Proprietary, and Fiduciary.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

Governmental Funds

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

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

Morrison Scholarship Fund - The Morrison Scholarship Fund is a Special Revenue Fund used to account for a scholarship given to the Educational Service Center to be used for purposes as determined by the Board of Education.

Miscellaneous Federal Grants Fund - The Miscellaneous Federal Grants Fund is a Special Revenue Fund used to account for miscellaneous federal grants as well as a grant used for expanding elementary and secondary school counseling programs.

The other Governmental Funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Proprietary Fund Type

Proprietary Fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary Funds are classified as enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund - The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for the operation of the Educational Service Center's self-insurance program for employee medical, vision, prescription drug, and dental claims.

Fiduciary Fund

Fiduciary Fund reporting focuses on net assets and changes in net assets. The Fiduciary Fund category is split into four classifications: Pension Trust Funds, Investment Trust Funds, Private Purpose Trust Funds and Agency Funds. Trust Funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only Fiduciary Fund is an Agency Fund. The Educational Service Center's Agency Fiduciary Fund accounts for various administrative activities held by the Educational Service Center as an agent for outside activities.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

Like the government-wide statements, the Internal Service Fund is 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 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 Educational Service Center finances and meets the cash flow needs of its proprietary activity.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental Funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

resources are provided to the Educational Service 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, interest, grants and contract services are considered to be both measurable and available at year end.

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. Allocations of cost, such as depreciation and amortization, are not recognized in the Governmental Funds.

E. Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The Board also approves estimated resources, which shows all funding expected to be received for each fund. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. The Educational Service Center participates in the OME-RESA insurance consortium for self-insurance. These monies are held separate from the Educational Service Center's central bank account

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

and are reflected in the financial statements as “Cash and Cash Equivalents with Fiscal Agents”.

At fiscal year end 2004, investments were limited to a repurchase agreement. Repurchase agreements are reported at cost.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$5,958, which includes \$719 assigned from other Educational Service Center funds.

For the purposes of the statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are presented as “Equity in Pooled Cash and Cash Equivalents”. Investments with an initial maturity of more than three months that are not purchased from the pool are presented as “Investments”.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption.

H. Prepaid Items

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

I. Capital Assets

General capital 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.

The Educational Service Center does not have any assets that meet the criteria for inclusion as a capital asset.

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center’s termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after five years of current service with the Educational Service Center.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, Governmental Fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences 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 in the current year.

L. Fund Balance Reserves

The Educational Service 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.

M. Net Assets

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

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

N. Interfund Transactions

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

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Educational Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

P. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES/EQUITY

A. Changes in Accounting Principles

For fiscal year 2004, the Educational Service Center has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, 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". The implementation of this new statement had no effect on the Educational Service Center's financial statements for fiscal year 2004.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the governmental users for its legally adopted budget when significant budgetary perspective differences result in the Educational Service Center not being able to present budgetary comparisons for the General and each major special revenue fund. This statement had no effect on the presentation of the budgetary statements of the Educational Service Center for fiscal year 2004.

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. This interpretation had no effect on the presentation of the budgetary statements of the Educational Service Center for fiscal year 2004.

B. Restatement of Fund Balances/Fund Equity

The implementation of GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the Educational Service Center. In addition, there are changes to the beginning fund balance/fund equity amounts due to the reclassification of funds based on guidance provided in GASB Statement No 34. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	General Fund	Morrison Scholarship	Miscellaneous Federal Grants	Nonmajor	Total
Fund Balances, June 30, 2003	\$657,830	\$262,280	\$1,722	\$142,087	\$1,063,919
Fund Reclassifications	127,432	0	0	(122,420)	5,012
Cash to GAAP Adjustments	(56,429)	261	(210)	(5,521)	(61,899)
Restated Fund Balances, June 30, 2003	<u>\$728,833</u>	<u>\$262,541</u>	<u>\$1,512</u>	<u>\$14,146</u>	1,007,032
GASB 34 Adjustments:					
Internal Service Fund					53,100
Intergovernmental Payable					(18,597)
Vacation Benefits Payable					(62,189)
Compensated Absences Payable					(112,350)
Long-Term (Deferred) Assets					<u>335,978</u>
Governmental Activities Net Assets, June 30, 2003					<u>\$1,202,974</u>

	Business-Type Activities - Internal Service Fund
Fund Equity, June 30, 2003	<u>\$120,830</u>
Budgetary Adjustment	(47,901)
Claims Payable	(14,817)
Fund Reclassification	<u>(5,012)</u>
Adjusted Net Assets, June 30, 2003	<u>53,100</u>
Move to Governmental Activities	<u>(53,100)</u>
Total Business-Type Activities, June 30, 2003	<u>\$0</u>

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

Accountability

The following funds had deficit fund balances at June 30, 2004:

<u>Special Revenue Funds:</u>	<u>Excess</u>
Miscellaneous State Grants	\$192
Preschool Grant	\$1,410

The deficits in these funds are the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund and each major Special Revenue Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements:

Net Change in Fund Balances			
General and Major Special Revenue Funds			
	General	Morrison Scholarship	Miscellaneous Federal Grants
GAAP Basis	\$143,915	(\$1,495)	\$15,972
Adjustments:			
Revenue Accruals	(7,009)	261	(31,942)
Expenditure Accruals	53,162	0	21,304
FY 03 Prepaid Items	40,222	0	0
FY 04 Prepaid Items	(43,321)	0	(1,649)
Advances In	24,972	0	0
Encumbrances	(339)	0	0
Budget Basis	<u>\$211,602</u>	<u>(\$1,234)</u>	<u>\$3,685</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies presented by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Educational Service Center has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

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

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

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

At June 30, 2004, the Educational Service Center's Internal Service Fund had a balance of \$138,875 with OME-RESA, a jointly governed organization (See Note 14). The money is held by the claims servicing pool in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center.

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$300,098 and the bank balance was \$380,023. Of the bank balance, \$200,000 was covered by federal depository insurance and \$180,023 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

	Category 2	Carrying/ Fair Value
Repurchase Agreement	\$1,000,000	\$1,000,000

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

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,438,973	\$0
Deposits with Fiscal Agent	(138,875)	0
Investment:		
Repurchase Agreement	(1,000,000)	1,000,000
GASB Statement No. 3	<u>\$300,098</u>	<u>\$1,000,000</u>

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of contract services and grants. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amount</u>
Governmental Activities:	
Excess Costs	\$446,476
Alternative School Grant	1,060
Homeless Grant	13,144
Safe and Drug Free Grant	<u>80,762</u>
Total Intergovernmental Receivable	<u>\$541,442</u>

NOTE 8 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under state law, provides supervisory services to school districts within its territory. Each local, city, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local, city, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37/\$40.52 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school district an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - RISK MANAGEMENT

A. Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 15)

During fiscal year 2004, the Educational Service Center purchased the following coverage:

<u>Ohio School Plan</u>		
Automotive Liability	\$1,000,000	
General Liability:		
Each Occurrence	\$1,000,000	
Aggregated Limit	\$3,000,000	
Medical Payments Limit	\$10,000	
Employee Benefits Liability:		
Each Occurrence	\$1,000,000	
Aggregated Limit	\$3,000,000	
Employers' Liability:		
Each Occurrence	\$1,000,000	
Disease - Each Employee	\$1,000,000	
Disease Limit	\$1,000,000	
Educational Legal Liability - Errors and Omissions:		
Each Wrongful Act Limit	\$1,000,000	\$2,500 deductible
Aggregate Limit	\$2,000,000	\$2,500 deductible
Educational Legal Liability - Employment Practices:		
Each Occurrence	\$1,000,000	\$2,500 deductible
Aggregate Limit	\$2,000,000	\$2,500 deductible
<u>Westfield Insurance Company</u>		
Business Personal Property	\$50,000-\$150,000	\$500 deductible

Settled claims have not exceeded their commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

B. Workers' Compensation Group Rating Plan

For fiscal year 2004, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Medical/Surgical, Dental, Vision, and Prescription Drug Insurances

Medical/surgical, dental, vision, and prescription drug insurance is offered through a self-insurance internal service fund. The Educational Service Center pays for 83.5% of family coverage and 88% of single coverage in premiums for this insurance. The Educational Service Center is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$12,429 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Since this is the first year the Educational Service Center has prepared financial statements in accordance with generally accepted accounting principles, changes in the fund's claims liability for 2003 are not available. In future years, when this information is available, two years of information will be presented. Changes in the fund's claims liability amount for 2004 follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2004	\$14,817	\$303,577	\$305,965	\$12,429

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$101,516, \$192,647, and \$188,415, respectively; 94 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$6,171 represents the unpaid contribution for fiscal year 2004.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

B. State Teachers Retirement System of Ohio

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, annual cost-of-living adjustments and death and survivor benefits to members and beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090 or by visiting the STRS Ohio web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$390,395, \$460,467, and \$405,757, respectively; 90 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$2,906 made by the Educational Service Center and \$15,889 made by the plan members. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees/Teachers Retirement Systems have an option to choose Social Security. This liability would be 6.2 percent of wages paid. As of June 30, 2004, none of the Educational Service Center's employees have elected Social Security.

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (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 the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS retirees who participated in the DB or Combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$2,895 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$18,104.

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

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from board policies and State laws. Eligible classified employees earn twelve to twenty days of vacation per year, depending upon length of service. Administrators earn twenty days of vacation per year. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances are to be used by the employees in the next fiscal year following the calendar year earned.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. All employees can accumulate sick leave days up to a maximum of 180 days. Upon retirement, payment is made for twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 45 days.

B. Other Employee Benefits

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance through Medical Life Insurance Company in the amount of \$15,000 for all of its full time employees.

NOTE 13 - LONG-TERM OBLIGATIONS

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

	<u>Outstanding 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 06/30/04</u>	<u>Amount Due Within One Year</u>
Governmental Activities					
Compensated Absences	<u>\$112,350</u>	<u>\$20,993</u>	<u>\$0</u>	<u>\$133,343</u>	<u>\$22,317</u>

Compensated absences will be paid from the General Fund.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The Educational Service Center's payment for computer services to OME-RESA in fiscal year 2004 was \$10,990. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Debra Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. East Central Ohio Special Education Regional Resource Center (ECO-SERRC)

ECO-SERRC is a special education regional resource center which selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO-SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO-

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

SERRC. ECO-SERRC is not financially dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for ECO-SERRC. Financial information can be obtained by contacting Julie A Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

C. Coalition of Rural and Appalachian Schools (CORAS)

CORAS is a jointly governed organization including 134 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. CORAS is operated by a board which is composed of seventeen members. The board members consist of one member elected and one member appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from the Ohio University College of Education. CORAS provides various in-service functions for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. CORAS is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for CORAS. During fiscal year 2004, the Educational Service Center paid \$300 to CORAS.

NOTE 15 - INSURANCE PURCHASING POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee for fiscal year 2004 was \$1,178.

B. Ohio School Plan (OSP)

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

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

NOTE 16 - CLAIMS SERVICING POOL

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Director's elected from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

NOTE 17 - STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 18 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

B. Litigation

The Educational Service Center is currently not party to any litigation.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

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

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Expenditures	Noncash Expenditures
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed-Through State Department of Education:</i>						
Special Education Cluster:						
Special Education, Grants to States	84.027	123281-6B-EC-03-P	\$17,500	\$0	\$17,500	\$0
Special Education, Preschool Grants	84.173	123281-PG-S1-04	54,234	0	54,234	0
Total Special Education Cluster			71,734	0	71,734	0
Safe & Drug Free Schools and Communities - National Programs	84.184C	123281-T4-S1-03	0	0	1,317	0
	84.184C	123281-T4-S1-04-P	650	0	625	0
	84.184C	123281-T4-S1-04	1,112	0	80	0
Total Safe & Drug Free Schools and Communities - National Programs			1,762	0	2,022	0
Education for Homeless Children and Youth	84.196	123281-HC-S1-03-P	4,200	0	4,795	0
	84.196	123281-HC-S1-03	1,459	0	1,915	0
	84.196	123281-HC-SP-03	10,500	0	10,500	0
	84.196	123281-HC-S1-04-P	29,600	0	29,207	0
	84.196	123281-HC-S1-04	34,047	0	33,874	0
	84.196	123281-HC-SP-04	3,600	0	0	0
Total Education for Homeless Children and Youth			83,406	0	80,291	0
<i>Direct Program:</i>						
Fund for the Improvement of Education	84.215E	Q215E030215	322,200	0	318,255	0
Total United States Department of Education			479,102	0	472,302	0
UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System - Title XIX	93.778	N/A	296,799	0	296,799	0
Total United States Department of Job and Family Services			296,799	0	296,799	0
Total Federal Awards Receipts and Expenditures			\$775,901	\$0	\$769,101	\$0

The Notes to the Schedule of Federal Awards Receipts, and Expenditures are an integral part of this schedule.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the Educational Service Center federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B –TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfer due to ODE administrative action:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.196	123281-HC-S1-03		\$41
84.196	123281-HC-S1-04	\$41	
Total		\$41	\$41

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2004, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated May 27, 2005, wherein we noted the Educational Service Center implemented a new financial reporting model, as required by Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-001 and 2004-002.

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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weakness.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-001 and 2004-002.

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



Betty Montgomery
Auditor of State

May 27, 2005



Auditor of State Betty Montgomery

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
National City Bank Building, 3rd Floor
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

Compliance

We have audited the compliance of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational 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 apply to each of its major federal programs for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs, identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Educational Service Center's compliance with those requirements.

As described in items 2004-003 and 2004-004 in the accompanying Schedule of Findings and Questioned Costs, the Educational Service Center did not comply with requirements regarding reporting applying to its Medical Assistance Program – Community Alternative Funding System – Title XIX program. Compliance with this requirement is necessary, in our opinion, for the Educational Service Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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Internal Control over Compliance

The Educational Service Center's management 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 Educational Service Center's internal control over compliance with requirements that could directly and materially affect a major federal program 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.

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Educational Service Center's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-003, 2004-004 and 2004-005.

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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider items 2004-003, 2004-004 and 2004-005 to be material weaknesses.

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



Betty Montgomery
Auditor of State

May 27, 2005

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED 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)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(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 – Fund for the Improvement of Education, CFDA #84215E Qualified – Medical Assistance Program – Community Alternative Funding System – Title XIX, CFDA #93.778
(d)(1)(vi)	Are there any reportable findings under §.510?	Yes
(d)(1)(vii)	Major Programs (list):	Fund for the Improvement of Education, CFDA #84.215E Medical Assistance Program – Community Alternative Funding System – Title XIX, CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Noncompliance Citation/Reportable Condition

Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS). Ohio Administrative Code Section 5123:2-15-41(J) (this subsection was changed from (E), effective 10/10/03), provides that for CAFS billing and cost reporting purposes, service coordination documentation for services provided to all individuals, both Medicaid and non-Medicaid, must include the following elements:

- (1) The date the service is provided, to include the year.
- (2) The name of the person for whom the service is provided.
- (3) A narrative description of the service provided and location of service (may be in case notes, or a coded system with a corresponding key).
- (4) The duration in minutes or time in/time out of the services provided. Duration in minutes is acceptable if the provider's schedule is maintained on file.
- (5) The identification of the service provider by signature or initials on each entry of service delivery. Each documentation recording sheet must contain a legend that indicates the service provider's name (typed or printed), title, signature, and initials to correspond with each entry's identifying signature or initials.

Ohio Admin. Code Section 5123:2-15-19(D)(2)(f) requires that for CAFS billing and cost reporting purposes, counseling and social work services documentation for services provided to all individuals must include the following element, among others: "Group size" which means the number of persons in the group who share similar plan-driven goals/services which are targeted by the service being provided.

Ohio Admin. Code Section 5123:2-15-10 (F)(5) provides CAFS reimbursement for professional services delivered by CAFS providers, in accordance with rules 5123:2-15-19 to 5123:2-15-37 of the Administrative Code, is made on a cost-settled, per-unit-of-service basis (this subsection was removed from Section 5123:2-15-10, effective September 30, 2004. Ohio Admin. Code Section 5123:2-15-10 (D)(5) provides when two or more individuals are receiving a professional service at the same time, the provider shall bill and receive payment based on the units of services provided, divided by the number of individuals receiving the professional service at the same time.

The CAFS Service Documentation Forms maintained by the Educational Service Center contained all the elements required under Ohio Administrative Code Sections 5123:2-15-41(J), 5123:2-15-10 (D)(5) and 5123:2-15-19(D)(2)(f). For some forms completed, the ESC provider did not differentiate between individual service and group services as defined in OAC 5123:2-15-10 (D)(5). The participant was reimbursed for the full amount of time spent in the session rather than the pro-rated time per individual when considering the group size. As an example, a participant receiving 150 minutes of service in a group of 5 would be reimbursed for the full 150 minute session instead of a pro-rated amount of 30 minutes (10 units-of-service rather than the allowable 2 units-of-service). In addition, especially for group settings such as delegated nursing services, the units-of-service were calculated based on a period of time instead of for the day of service (each participant's unit-of-service was based on total minutes for the week instead of per service period). For the CAFS Service Documentation forms coded to support the July 3, 2003 and February 17, 2004 reimbursements, we tested 130 claims for correct calculation of units-of-service and 61 of the claims tested contained an error in calculating the units-of-service. For the CAFS Service Documentation forms to support the June 7, 2004 reimbursement, we tested 29 claims and one claim contained an error in calculating the units-of-service.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2004-001 (Continued)

Noncompliance Citation/Reportable Condition - Ohio Admin. Code Section 5123:2-15 (Continued)

We tested 29 claims for delegated nursing services to support the February 14, 2004 reimbursement and 100% of these claims contained a data entry error by the Educational Service Center relating to the units-of-service. These errors were either posting errors or the CAFS Service Documentation Form was coded incorrectly. The Educational Service Center was reimbursed \$992 for these tested claims but should have only received \$151 if the claims were submitted correctly. Therefore, we have known errors of \$841 for these tested claims (See Finding 2004-003).

We recommend the Educational Service Center train their CAFS providers in the proper method of determining units-of-service on the CAFS Service Documentation Forms. In addition, the Educational Service Center should train the data-entry personnel in the proper method of calculating units-of-service to allow them to check the CAFS Service Documentation Forms from providers to determine if the units-of-service is correct on the form before inputting into the system. The Educational Service Center contracted with a new third party administrator for CAFS billings in February 2005, in which the third party administrator would be responsible for the input of units-of-service.

FINDING NUMBER 2004-002

Noncompliance Citation/Reportable Condition

Ohio Admin. Code Section 5123:2-15-21 (C)(1) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible Registered Nurse (RN) after a nursing assessment by an RN. Nursing services which are to be delegated must be specified in the recipient's individual service plan. Delegated nursing services must be delivered in accordance with accepted nursing practice under the direction and supervision of the responsible RN. This Section replaces Section 5123:2-15-22(D), which was repealed effective January 8, 2004. The former Section provided that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible RN after a nursing assessment by a RN. Nursing services which are to be delegated must be specified in the recipient's individual plan, including the title of the individual to whom the task is to be delegated, a description of the specified task which is to be delegated, the frequency with which the task is to be performed, and documentation that the individual to whom the task is to be delegated has been specifically trained to perform the task by the responsible RN and determined to be capable of performing the task properly on a consistent basis.

The Educational Service Center properly documented nursing and delegated nursing services on their CAFS Service Documentation Forms. The Educational Service Center utilized a third party administrator, Mecca Tech, Inc., to submit reimbursement claims to the Ohio Department of Mental Retardation and Development Disabilities through February 2005. The Educational Service Center was responsible for entering data information from the CAFS Service Documentation Forms into the software provided by Mecca Tech, Inc. The software provided by Mecca Tech, Inc. for the period July 1, 2003 through December 31, 2003 did not differentiate between regular nursing and delegated nursing services. When Educational Service Center employees entered information from the CAFS Service Documentation Forms for regular or delegated nursing services, the regular nursing service code was used for both regular and delegated nursing services. The CAFS service code rate for regular nursing services was at a rate of \$26.96 per unit-of-service whereas the rate for delegated nursing services was \$6.19 per unit-of-service. We tested 73 claims entered for delegated

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-002 (Continued)

**Noncompliance Citation/Reportable Condition- Ohio Admin. Code Section 5123:2-15-21(c)(1)
(Continued)**

nursing services to support the July 3, 2003 reimbursement. 73 of the 73 claims tested had errors in the service code used which allowed delegated nursing services to be billed as regular nursing services. In addition to entering the incorrect service code, 67 of the 73 claims tested had input errors in the posting of units-of-service, thereby these two procedural type errors resulted in \$18,791 of reimbursement error for the 73 claims tested. In addition, we noted 100% of submissions for services provided in fiscal year 2003, the incorrect Federal Financial Participation (FFP) rate was used in calculating the reimbursement.

We tested 29 claims for delegated nursing to support the February 7, 2004 reimbursement, 20 of 29 claims tested were double billed, once as regular nursing services and once as delegated nursing services. This resulted in \$2,943 of reimbursement error.

Therefore, we have \$21,734 of known errors for the aforementioned tested claims (See Finding 2004-004).

We recommend the Educational Service Center train their CAFS providers in the proper method of determining units-of-service on the CAFS Service Documentation Forms. In addition, the Educational Service Center should train the data-entry personnel in the proper method of calculating units-of-service to allow them to check the CAFS Service Documentation Forms from providers to determine if the units-of-service is correct on the form before inputting into the system. The third party administrator for the CAFS billings corrected the software to include a service code for delegated nursing services effective with billings entered after January 2, 2004. The Educational Service Center contracted with a new third party administrator for CAFS billings in February 2005, in which the third party administrator would be responsible for the input of units-of-service.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2004-003
CFDA Title and Number	Medical Assistance Program – Community Funding Alternative Funding System (CAFS) – Title XIX CFDA #93.778
Federal Award Number / Year	3000166/2003-2004
Federal Agency	United States Department of Job and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2004-003 (Continued)

Noncompliance Citation/Questioned Cost/Material Weakness

Reporting

See Finding 2004-001 in Section 2 of the Schedule of Findings and Questioned Costs. The Educational Service Center improperly billed units-of-service, resulting in an overpayment.

As a result, we have known errors for CAFS reimbursements in the amount of \$841 and likely errors in the range of \$190,000 to \$210,000 which are considered federal questioned costs.

Finding Number	2004-004
CFDA Title and Number	Medical Assistance Program – Community Funding Alternative Funding System (CAFS) – Title XIX CFDA #93.778
Federal Award Number / Year	3000166/2003-2004
Federal Agency	United States Department of Job and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

Noncompliance Citation/Questioned Cost/Material Weakness

Reporting

See Finding 2004-002 in Section 2 of the Schedule of Findings and Questioned Costs. The Educational Service Center did improperly bill delegated nursing services as regular nursing, resulting in an overpayment.

As a result, we have known errors for CAFS reimbursements in the amount of \$21,734 and likely errors in the range of \$190,000 to \$210,000 which are considered federal questioned costs.

Finding Number	2004-005
CFDA Title and Number	Medical Assistance Program – Community Funding Alternative Funding System (CAFS) – Title XIX CFDA #93.778
Federal Award Number / Year	3000166/2003-2004
Federal Agency	United States Department of Job and Family Services
Pass-Through Agency	Ohio Department of Mental Retardation and Developmental Disabilities

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2004-005 (Continued)

Material Weakness

Reporting

Statement on Auditing Standard (SAS) No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55*, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. In certain situations, an entity's internal control is not limited to the controls in place within the entity's physical capacity or internal operations that extend beyond the entity. This can occur if an entity uses another organization to perform services that affect the entity's ability to record, process, summarize, and report financial information in its financial statements. SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, of which the Educational Service Center contracted with Mecca Tech, Inc., a third party administrator, to bill CAFS federal claims to Ohio Department of Mental Retardation and Developmental Disabilities for reimbursement.

The Educational Service Center's contract with Mecca Tech, Inc., required Mecca Tech, Inc., to have a SAS 70 audit performed on their internal control procedures. Mecca Tech, Inc., did not have a SAS 70 audit performed that would cover the audit period. In addition, the Educational Service Center did not implement any control procedures to assess the reasonableness of transactions performed by Mecca Tech, Inc., that would affect the Educational Service Center's financial information in its financial statements.

We recommend the Educational Service Center require its third party administrator, Mecca Tech, Inc., to fulfill their obligation under contractual commitment to obtain a SAS 70 report or the Educational Service Center should implement control procedures to assess the reasonableness of transactions performed by the third party administrator that would affect the Educational Service Center's financial information. The Educational Service Center discontinued their association with Mecca Tech, Inc. in February 2005 and contracted with a new third party administrator for CAFS billings.

In addition, SAS 78 considers management activities designed to monitor financial reports as an important control function. We recommend the Board of Education and management monitor important financial information and grant-related reports, including budget and actual estimates to help determine the reasonableness of financial information.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2004-005 (Continued)

Material Weakness

Reporting

Statement on Auditing Standard (SAS) No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55*, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. In certain situations, an entity's internal control is not limited to the controls in place within the entity's physical capacity or internal operations that extend beyond the entity. This can occur if an entity uses another organization to perform services that affect the entity's ability to record, process, summarize, and report financial information in its financial statements. SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, of which the Educational Service Center contracted with Mecca Tech, Inc., a third party administrator, to bill CAFS federal claims to Ohio Department of Mental Retardation and Developmental Disabilities for reimbursement.

The Educational Service Center's contract with Mecca Tech, Inc., required Mecca Tech, Inc., to have a SAS 70 audit performed on their internal control procedures. Mecca Tech, Inc., did not have a SAS 70 audit performed that would cover the audit period. In addition, the Educational Service Center did not implement any control procedures to assess the reasonableness of transactions performed by Mecca Tech, Inc., that would affect the Educational Service Center's financial information in its financial statements.

We recommend the Educational Service Center require its third party administrator, Mecca Tech, Inc., to fulfill their obligation under contractual commitment to obtain a SAS 70 report or the Educational Service Center should implement control procedures to assess the reasonableness of transactions performed by the third party administrator that would affect the Educational Service Center's financial information. The Educational Service Center discontinued their association with Mecca Tech, Inc. in February 2005 and contracted with a new third party administrator for CAFS billings.

In addition, SAS 78 considers management activities designed to monitor financial reports as an important control function. We recommend the Board of Education and management monitor important financial information and grant-related reports, including budget and actual estimates to help determine the reasonableness of financial information.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 §.315 (b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Ohio Admin. Code Section 117-2-03 requires the preparation of annual financial reports in accordance with generally accepted accounting principles.	Yes	Fully Corrected
2003-02	Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS).	No	Not Corrected; repeated as finding 2004-001.
2003-003	Ohio Admin. Code Section 5123:2-15-22(D) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible Registered Nurse (RN) after a nursing assessment by a RN.	No	Not Corrected; repeated as finding 2004-002.
2003-004	Management is responsible for designing and implementing internal control policies and procedures to allow reliable financial reporting and ensure compliance with federal laws and regulations.	No	Partially corrected; repeated as part of findings 2004-001 and 2004-002.
2003-005	Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS). The Educational Service Center improperly billed group services as individual services, resulting in an overpayment and federal questioned costs of \$730,293.	No	Not Corrected; repeated as finding 2004-003.
2003-006	Ohio Admin. Code Section 5123:2-15-22(D) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible Registered Nurse (RN) after a nursing assessment by a RN. The Educational Service Center improperly billed delegated nursing services as regular nursing, resulting in an overpayment and federal questioned costs of \$730,293.	No	Not Corrected; repeated as finding 2004-004.
2003-007	Management did not implement control procedures to assure reliable financial reporting and ensure compliance with federal laws and regulations.	No	Partially corrected; repeated as part of findings 2004-003 and 2004-004.

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	Management has contacted the third party administrator, Mecca Tech, Inc., to resolve the non-compliance issues identified. Mecca Tech, Inc., is working with both the Board of Education and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD. Effective February 14, 2005, the CAFS service agreement between the Board of Education and Mecca Tech, Inc., was terminated.	June 30, 2005	Mark Lucas, Treasurer
2004-002	Management has contacted the third party administrator, Mecca Tech, Inc., to resolve the non-compliance issues identified. Mecca Tech, Inc., is working with both the Board of Education and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD. Effective February 14, 2005, the CAFS service agreement between the Board of Education and Mecca Tech, Inc., was terminated.	June 30, 2005	Mark Lucas, Treasurer
2004-003	Management has contacted the third party administrator, Mecca Tech, Inc., to resolve the non-compliance issues identified. Mecca Tech, Inc., is working with both the Board of Education and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD. Effective February 14, 2005, the CAFS service agreement between the Board of Education and Mecca Tech, Inc., was terminated.	June 30, 2005	Mark Lucas, Treasurer

**GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER
GUERNSEY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-004	Management has contacted the third party administrator, Mecca Tech, Inc., to resolve the non-compliance issues identified. Mecca Tech, Inc., is working with both the Board of Education and ODMRDD to correct these issues and to make arrangements to re-bill those amounts over reimbursed by ODMRDD. Effective February 14, 2005, the CAFS service agreement between the Board of Education and Mecca Tech, Inc., was terminated.	June 30, 2005	Mark Lucas, Treasurer
2004-005	Effective February 14, 2005, the CAFS service agreement between the Board of Education and Mecca Tech, Inc., was terminated.	June 30, 2005	Mark Lucas, Treasurer



**Auditor of State
Betty Montgomery**

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GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER

GUERNSEY 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
JUNE 30, 2005**