



**Auditor of State
Betty Montgomery**

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231-1499

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Hamilton County Educational Service Center, Hamilton County, Ohio, as of June 30, 2004, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the budgetary comparisons for the General, Head Start TANF, and Miscellaneous State Grants funds are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

May 19, 2005

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2004 are as follows:

- General revenues accounted for \$6,169,081 in revenue or 14% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$37,118,655 or 86% of total revenues of \$43,287,736 million.
- The Board had \$42,636,452 in expenses related to governmental activities; \$37,118,655 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$6,169,081 were also used to provide for these programs.
- Net assets increased \$651,284 for governmental activities from 2003.

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Statement of Net Assets and the Statement of Activities, the Center has one activity:

- Governmental Activities – Most of the Center’s programs and services are reported here including instruction, support services, operation and maintenance of plant and community services.

Reporting the Center’s Most Significant Funds

Fund Financial Statements

The analysis of the Center’s major funds begin on the balance sheet. Fund financial reports provide detailed information about the Center’s major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center’s most significant funds.

Governmental Funds All of the Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 Center’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

The Center as a Whole

As stated previously, the Statement of Net Assets looks at the Center as a whole. Table 1 provides a summary of the Center’s net assets for 2003 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Assets:		
Current and Other Assets	\$6,369,884	\$7,512,624
Capital Assets	<u>1,582,912</u>	<u>1,554,659</u>
Total Assets	<u>7,952,796</u>	<u>9,067,283</u>
Liabilities:		
Long-Term Liabilities	2,660,237	2,966,025
Other Liabilities	<u>3,933,997</u>	<u>4,091,412</u>
Total Liabilities	<u>6,594,234</u>	<u>7,057,437</u>
Net Assets:		
Invested in Capital		
Assets Net of Debt	1,582,912	1,554,659
Restricted	1,408,735	1,230,160
Unrestricted	<u>(1,633,085)</u>	<u>(774,973)</u>
Total Net Assets	<u>\$1,358,562</u>	<u>\$2,009,843</u>

Total assets increased \$1,114,487. Equity in pooled cash and cash equivalents increased \$40,385. Intergovernmental receivable increased \$1,104,905 due to an increase in grant receipts from the state. Total liabilities increased \$463,203, resulting in a net asset increase of \$651,284.

Table 2 shows the changes in net assets for the fiscal year.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$18,310,152	\$23,421,626
Operating Grants	13,936,438	13,697,029
General Revenue:		
Grants and Entitlements	5,682,974	5,963,824
Other	<u>98,626</u>	<u>205,257</u>
Total Revenues	<u>38,028,190</u>	<u>43,287,736</u>
Program Expenses:		
Instruction	8,360,761	9,404,736
Support Services:		
Pupil and Instructional Staff	10,014,549	10,531,924
General Administration, School		
Administration, Fiscal and Business	8,617,528	9,130,685
Operations and Maintenance	122,444	115,342
Central	593,550	574,277
Operation of Non-Instructional Services	14,392,247	12,879,488
Interest and Fiscal Charges	<u>45</u>	<u>0</u>
Total Expenses	<u>42,101,124</u>	<u>42,636,452</u>
Increase in Net Assets	<u>(\$4,072,934)</u>	<u>\$651,284</u>

Governmental Activities

The Center revenues are mainly from two sources, fee for service and state foundation. Fee for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. State foundation revenues are given directly to the Center and are calculated based on the ADM of the districts. Charges for services increased \$5,111,474 due to fee increases and a school improvement contract with Cincinnati Public School District.

Instruction comprises 22% of governmental program expenses. Instruction expense increased \$1,043,975 due to the school improvement contract with Cincinnati Public Schools. The Center hired several teachers and aides to instruct this project. Support services expenses were 48% of governmental program expenses. All other expenses including interest expense were 30% of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Instruction	\$8,360,761	\$9,404,736	(\$2,148,229)	(\$2,165,000)
Support Services:				
Pupil and Instructional Staff	10,014,549	10,531,924	(2,489,853)	(2,331,787)
General Administration, School Administration,				
Fiscal and Business	8,617,528	9,130,685	(676,846)	(856,743)
Operations and Maintenance	122,444	115,342	(11,014)	(9,207)
Central	593,550	574,277	(49,828)	123,144
Operation of Non-Instructional Services	14,392,247	12,879,488	(4,478,719)	(278,204)
Interest and Fiscal Charges	<u>45</u>	<u>0</u>	<u>(45)</u>	<u>0</u>
Total Expenses	<u>\$42,101,124</u>	<u>\$42,636,452</u>	<u>(\$9,854,534)</u>	<u>(\$5,517,797)</u>

The Center's Major Funds

Information about the Board's major funds is presented in the Fund Financial Statements (see Table of Contents). These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$43,454,921 and expenditures and other financing uses of \$42,259,162. The net change in fund balance for the year was \$1,195,759.

- As the major fund, the General Fund had \$29,613,946 in revenues and \$29,694,122 in expenditures. The General Fund's fund balance decreased from \$707,732 to \$627,556.
- The head start/TANF fund balance increased from (\$139,356) to \$729,571. A key factor for this increase is a decrease in support services such as administrative expense and several programs are no longer funded by the state.
- The miscellaneous state grants fund balance increased from \$37,327 to \$645,722. An increase in grant money revenue is a key factor for this increase.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the Center amended its general fund budget numerous times, however none were significant. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$30,433,880, above the original budget estimates of \$29,350,000. Of this \$1,083,880 difference, most was due to higher than expected contract services revenue for fiscal year 2004.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the Board had \$1,554,659 invested in buildings and equipment. Table 4 shows fiscal 2004 balances compared to 2003:

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

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Buildings and Improvements	\$5,651	\$5,044
Equipment	<u>1,577,261</u>	<u>1,549,615</u>
Total Net Assets	<u>\$1,582,912</u>	<u>\$1,554,659</u>

Debt

At June 30, 2004, the Board had no outstanding debt obligations.

For the Future

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton County districts are expected to increase in FY 2005 due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in fiscal year 2005.

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Center's and the method to which they are funded. The ODE must submit a report to the legislature in March 2004. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$4,894,799
Receivables:	
Intergovernmental	2,614,232
Inventory	3,593
Depreciable Capital Assets, Net	<u>1,554,659</u>
Total Assets	<u>9,067,283</u>
Liabilities:	
Accounts Payable	24,900
Accrued Wages and Benefits	4,066,512
Long-Term Liabilities:	
Due Within One Year	321,288
Due In More Than One Year	<u>2,644,737</u>
Total Liabilities	<u>7,057,437</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,554,659
Restricted for:	
Special Revenue	1,030,160
Capital Projects	200,000
Unrestricted	<u>(774,973)</u>
Total Net Assets	<u>\$2,009,846</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Special	\$9,121,285	\$6,949,985	\$60,872	(\$2,110,428)
Vocational	283,451	228,393	486	(54,572)
Support Services:				
Pupil	6,305,860	4,848,671	18,018	(1,439,171)
Instructional Staff	4,226,064	2,263,276	1,070,172	(892,616)
General Administration	43,497	34,737	74	(8,686)
School Administration	7,463,189	2,067,888	4,886,644	(508,657)
Fiscal	1,000,084	599,773	189,177	(211,134)
Business	623,915	494,597	1,052	(128,266)
Operations and Maintenance	115,342	15,240	90,895	(9,207)
Central	574,277	460,088	237,333	123,144
Operation of Non-Instructional Services	12,879,488	5,458,978	7,142,306	(278,204)
Total Governmental Activities	42,636,452	23,421,626	13,697,029	(5,517,797)

General Revenues:	
Grants and Entitlements not Restricted to Sp	5,963,824
Investment Earnings	67,533
Other Revenues	137,724
Total General Revenues	6,169,081
Change in Net Assets	651,284
Net Assets Beginning of Year	1,358,562
Net Assets End of Year	\$2,009,846

See accompanying notes to the basic financial statements.

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

	General	Head Start/TANF	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$1,386,334	\$780,638	\$683,247	\$2,044,580	\$4,894,799
Receivables:					
Intergovernmental	1,024,232	724,917	262,125	602,958	2,614,232
Interfund	1,811,000	0	0	0	1,811,000
Inventory	3,593	0	0	0	3,593
Total Assets	4,225,159	1,505,555	945,372	2,647,538	9,323,624
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	2,559	9,513	2,446	10,382	24,900
Accrued Wages and Benefits	3,577,488	41,471	43,372	334,575	3,996,906
Compensated Absences	17,556	0	832	14,964	33,352
Interfund Payable	0	725,000	253,000	833,000	1,811,000
Deferred Revenue	0	0	0	211,213	211,213
Total Liabilities	3,597,603	775,984	299,650	1,404,134	6,077,371
Fund Balances:					
Reserved for Encumbrances	91,144	349,776	404,313	1,170,448	2,015,681
Reserved for Inventory	3,593	0	0	0	3,593
Unreserved, Undesignated, Reported in:					
General Fund	532,819	0	0	0	532,819
Special Revenue Funds	0	379,795	241,409	(127,044)	494,160
Capital Projects Funds	0	0	0	200,000	200,000
Total Fund Balances	627,556	729,571	645,722	1,243,404	3,246,253
Total Liabilities and Fund Balances	\$4,225,159	\$1,505,555	\$945,372	\$2,647,538	\$9,323,624

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balance		\$3,246,253
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,554,659
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.		
Intergovernmental	<u>211,213</u>	211,213
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Pension Obligation	(69,606)	
Compensated Absences	<u>(2,932,673)</u>	
		<u>(3,002,279)</u>
Net Assets of Governmental Activities		<u>\$2,009,846</u>

See accompanying notes to the basic financial statements.

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

	General	Head Start/TANF	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tuition and Fees	\$42,275	\$0	\$0	\$0	\$42,275
Investment Earnings	67,533	0	0	0	67,533
Intergovernmental	6,013,552	2,838,435	2,308,826	8,667,223	19,828,036
Contract Services	23,435,654	0	0	0	23,435,654
Other Revenues	54,932	0	0	26,491	81,423
Total Revenues	29,613,946	2,838,435	2,308,826	8,693,714	43,454,921
Expenditures:					
Current:					
Instruction:					
Special	8,785,829	0	0	193,178	8,979,007
Vocational	276,928	0	0	0	276,928
Support Services:					
Pupil	6,173,390	0	67,585	41,659	6,282,634
Instructional Staff	2,913,667	0	825,242	440,678	4,179,587
General Administration	43,497	0	0	0	43,497
School Administration	2,613,771	121,842	719,857	3,874,914	7,330,384
Fiscal	743,076	0	87,747	157,088	987,911
Business	620,506	0	0	0	620,506
Operations and Maintenance	19,105	0	0	96,237	115,342
Central	585,547	0	0	27,070	612,617
Operation of Non-Instructional Services	6,918,806	1,847,666	0	4,064,277	12,830,749
Total Expenditures	29,694,122	1,969,508	1,700,431	8,895,101	42,259,162
Net Change in Fund Balance	(80,176)	868,927	608,395	(201,387)	1,195,759
Fund Balance Beginning of Year	707,732	(139,356)	37,327	1,444,791	2,050,494
Fund Balance End of Year	\$627,556	\$729,571	\$645,722	\$1,243,404	\$3,246,253

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds \$1,195,759

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

Governmental funds report capital asset additions as expenditures.
 However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	403,740	
Depreciation Expense	<u>(425,489)</u>	(21,749)

Governmental funds only report the disposal of assets to the
 extent proceeds are received from the sale. In the statement
 of activities, a gain or loss is reported for each disposal. The
 amount of the proceeds must be removed and the gain or loss
 on the disposal of capital assets must be recognized. This is the
 amount of the difference between the proceeds and the gain or loss. (6,504)

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

Intergovernmental	<u>(167,185)</u>	(167,185)
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Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Pension Obligation	(59,269)	
Compensated Absences	<u>(289,768)</u>	(349,037)

Change in Net Assets of Governmental Activities \$651,284

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$1,505,690
Receivables:	
Intergovernmental	<u>139,723</u>
Total Assets	<u>\$1,645,413</u>
Liabilities:	
Accounts Payable	72,732
Other Liabilities	<u>1,572,681</u>
Total Liabilities	<u>\$1,645,413</u>
Net Assets:	
Held in Trust	
Total Net Assets	

See accompanying notes to the basic financial statements.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

1. DESCRIPTION OF THE BOARD

The Hamilton County Educational Service Center serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Hamilton County Educational Service Center's Governing Board is comprised of five members who are resident electors of the County School district. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the six local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the six local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Joint Vocational District have one or another types of cooperative service agreements with the County School system.

The Office of the Board is regularly referred to as the Hamilton County Educational Service Center (HCEC) which is housed in a separate, modern facility in a complex known as Civic Center North, a development provided for diverse services by the Board of County Commissioners. The HCEC serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and his staff of approximately 614 certificated and non-certificated support employees.

REPORTING ENTITY

For financial reporting purposes the Board's financial statements include all funds and account groups of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the board. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Board would consider an organization to be a component unit if:

1. The Board appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Board; or
2. The organization was fiscally dependent upon the Board; or
3. The nature of the relationship between the Board and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Board misleading.

The Board included no component units in the financial report.

The Service Center provides fiscal agent service to the Southwestern Ohio Special Education Regional Resource Center (SWO SERRC), 1301 Bonnell, Cincinnati, Ohio 45215. SERRC is one of 16 regional centers serving the state of Ohio. The SWO SERRC is a separate agency that service the southwestern corner of the state, which includes Butler, Clermont, Hamilton, and Warren Counties, and the City of Cincinnati through cooperative agreements with regard to special education mandates established by the State of Ohio.

SWO SERRC is part of a federally funded project under the Ohio Department of Education Office for Exceptional Children. SWO SERRC has a Governing Board made up of superintendents of schools; special and general education personnel; parents of children with disabilities; and representatives from nonpublic and community schools, county boards of mental retardation and developmental disabilities, regional institutions, and universities in the region – ensures that regional needs are addressed. The Service Center is the fiscal agent for SWO SERRC for whom the superintendent and treasurer have responsibility for ensuring that the expenditure of SERRC project funds is made in accordance with all applicable local, state, and federal laws and regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board 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 Board also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the Board's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Board are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Board'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 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 Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fiduciary Funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

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

Governmental Funds

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

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

Head Start/TANF - The head start/tanf fund is used to account for all financial resources that are associated with the head start/tanf program.

Miscellaneous State Grants - The miscellaneous state grants fund is used to account for state funds that are legally restricted to expenditures for specified purposes.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School Board under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Board's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The Board's only fiduciary fund is an Agency fund. The money held in the Agency fund is for the data center.

3. BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, included 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 Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: grants and interest.

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. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the Board is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$67,533.

For presentation on the financial statements, all investments and deposits are reported as "equity in pooled cash and investments".

During the fiscal year, the Board held donated stock which is held at fair value. The fair value is based on quoted market prices.

INVENTORY

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and are expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of \$2,000. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	30 - 50 years
Building Improvements	10 - 40 years
Improvements other than Buildings	10 - 20 years
Furniture, Fixtures and Equipment	5 - 20 years

COMPENSATED ABSENCES

The Board reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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 Board will compensate the employees for the benefits through paid time off or some other means. The Board 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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Board's past experience of making termination payments.

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

Compensated absences are recognized in governmental fund financial statements, when they are paid, or in the case of termination payments for unused leave, when due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Board's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u> (261 day employees only)	<u>Non-Certificated</u> (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum. Vac.	100% of Daily Rate of Accum. Vac.

Sick Leave

Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	240	240	240
Vested	As Earned	As Earned	As Earned
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 60 days X current daily rate.	25% of Accum. unused sick leave max 60 days X current daily rate.	25% of Accum. unused sick leave max 60 days X current daily rate.

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 Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

INTERFUND ACTIVITY

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated on the statement of net assets.

FUND EQUITY

Reserved fund balances indicate a portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and supplies inventory. The unreserved portion of fund equity, reflected for the Governmental Funds, is available for use within the specific purpose of those funds.

4. CASH AND CASH EQUIVALENTS

The Board maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Board into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Board. Such monies must by law be maintained either as cash in the Board treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Deposits – At the year end, the carrying amount of the Board's deposits was \$6,140,024. The bank balance of deposits was \$8,022,050 of which \$200,000 was covered by federal depository insurance. The remaining balance of \$7,822,050 was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the Board's name.

Investments – The Board's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- Category 1 includes investments that are insured or registered or for which the securities are held by the Board or its agent in the Board's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Board's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the Board's name.

Based on the above criteria, the Board's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount/ Fair Value</u>
U.S. Agencies	\$0	\$0	\$207,618	\$207,618
Stocks*	<u>52,847</u>	<u>0</u>	<u>0</u>	<u>52,847</u>
Total Investments	<u>\$52,847</u>	<u>\$0</u>	<u>\$207,618</u>	<u>\$260,465</u>

*The amount of \$52,847 was donated stock by a private individual.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

5. RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

6. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
Buildings and Improvements	\$6,076	\$0	\$0	\$6,076
Furniture and Equipment	<u>4,485,302</u>	<u>403,740</u>	<u>135,142</u>	<u>4,753,900</u>
Totals at Historical Cost	<u>\$4,491,378</u>	<u>\$403,740</u>	<u>\$135,142</u>	<u>\$4,759,976</u>
Less Accumulated Depreciation:				
Buildings and Improvements	\$425	\$607	\$0	\$1,032
Furniture and Equipment	<u>2,908,041</u>	<u>424,882</u>	<u>128,638</u>	<u>3,204,285</u>
Total Accumulated Depreciation	<u>\$2,908,466</u>	<u>\$425,489</u>	<u>\$128,638</u>	<u>\$3,205,317</u>
Governmental Activities Capital Assets, Net	<u>\$1,582,912</u>	<u>(\$21,749)</u>	<u>(\$6,504)</u>	<u>\$1,554,659</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$427
Support Services:	
Pupil	1,633
Instructional Staff	4,232
School Administration	118,720
Fiscal	299
Business	934
Central	282,675
Operation of NonInstructional Services	<u>16,569</u>
Total Depreciation Expense	<u>\$425,489</u>

7. LONG-TERM LIABILITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>					
Compensated Absences	\$2,660,237	\$554,613	\$248,825	\$2,966,025	\$321,288
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,660,237</u>	<u>\$554,613</u>	<u>\$248,825</u>	<u>\$2,966,025</u>	<u>\$321,288</u>

8. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 10% of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The current Board rate is 14% of annual covered payroll. A portion of the Board's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion being 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 Board's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,024,895, \$1,983,269, and \$1,829,785 respectively; 94.8% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

STATE TEACHERS RETIREMENT SYSTEM

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and 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 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 9.3% of their annual covered salaries. The Board was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The Board's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$4,317,350, \$3,892,357, and \$3,448,031 respectively; 94.2% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

9. POST EMPLOYMENT BENEFITS

The Board provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Board, this amount equaled \$308,382 during the 2004 fiscal year. As of June 30, 2004, eligible benefit recipients totaled 111,853. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll, a decrease of 0.92% from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Board, this amount equaled \$710,160 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,805.

10. CONTINGENT LIABILITIES

GRANTS

The Board receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Board as of June 30, 2004.

LITIGATION

The Board's attorney estimates that all other potential claims against the Board not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Board.

11. RISK MANAGEMENT

The Hamilton County 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. The Hamilton County Educational Service Center carries insurance coverage with the following companies.

<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	The Cincinnati Insurance Company
Property	The Cincinnati Insurance Company
General Liability	Ohio School Plan

Limits and deductible amounts for the above policies vary accordingly.

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$2,000,000 each occurrence	\$250 collision
Property	\$1,500,000 each occurrence	\$500 each loss
General Liability	\$1,000,000 each occurrence \$3,000,000 general aggregate	

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

12. STATE SCHOOL FUNDING DECISION

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

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

13. STATE FUNDING

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

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

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

14. ACCOUNTABILITY

The following individual funds had a deficit in fund balance at year end:

	<u>Deficit</u>
Other Governmental Funds:	
Alternative Schools	\$8,363
Head Start	136,413
Title II Eisenhower	3,354
IDEA Preschool Grant	8,681
Modernization of Vocational Education	17,288

15. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004, consisted of the following individual fund receivables and payables:

Interfund Receivables/Payables:	<u>Interfund Loan Receivable</u>	<u>Interfund Loan Payable</u>
Major Funds:		
General Fund	\$1,811,000	
Head Start/TANF		\$725,000
Miscellaneous State Grants		253,000
Other Governmental Funds:		
Other Grant Funds		14,000
Modernization of Vocational Education		23,000
Alternative Schools		11,000
Title II Eisenhower		123,000
Title VI-B Special Ed.		76,000
Head Start		320,000
Title I Disadvantaged Children		173,000
IDEA Preschool Grant		16,000
Miscellaneous Federal Grants		77,000
	<u>\$1,811,000</u>	<u>\$1,811,000</u>

16. JOINTLY GOVERNED ORGANIZATION

Hamilton/Clermont Cooperative Association

The Hamilton/Clermont Cooperative Association (HCCA) is a governmental jointly governed organization consisting of 24 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating 24 school districts.

Southwestern Ohio Special Education Regional Resource Center

Southwestern Ohio Special Education Regional Resource Center (SWO SERRC) is a jointly governed organization created by the Ohio Department of Education. Approximately seventy local, city, exempted village, community and private school districts receive services from SWO SERRC. SWO SERRC is operated under regulations and policies established by the Ohio Department of Education and its own governing board. The SWO SERRC Governing Board has 23 members including superintendents, special education directors and assistant superintendents, parents and community members and fiscal agent superintendents. There is also a SERRC executive board that is made up of 7 members, 6 superintendents and 1 parent. The Service Center acts as fiscal agent for the SWO SERRC through a written agreement. SWO SERRC receives funding from state and federal grants.

Hamilton County Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$40,769	\$42,275	\$42,275	\$0
Investment Earnings	55,925	57,990	57,990	0
Intergovernmental	5,584,400	5,790,629	5,790,629	0
Contract Services	22,624,283	23,459,786	23,459,786	0
Total Revenues	28,305,377	29,350,680	29,350,680	0
Expenditures:				
Current:				
Instruction:				
Special	9,143,915	8,653,557	8,653,557	0
Vocational	302,538	286,314	286,314	0
Support Services:				
Pupil	6,426,733	6,082,089	6,082,089	0
Instructional Staff	3,005,785	2,844,595	2,844,595	0
General Administration	46,015	43,547	43,547	0
School Administration	2,805,661	2,655,203	2,655,203	0
Fiscal	796,219	753,520	753,520	0
Business	670,655	634,690	634,690	0
Operations and Maintenance	20,188	19,105	19,105	0
Central	610,477	577,739	577,739	0
Operation of Non-Instructional Services	7,201,309	6,815,127	6,815,127	0
Total Expenditures	31,029,495	29,365,486	29,365,486	0
Excess of Revenues Over (Under) Expenditures	(2,724,118)	(14,806)	(14,806)	0
Other financing sources (uses):				
Advances In	1,044,623	1,083,200	1,083,200	0
Advances (Out)	0	(1,811,000)	(1,811,000)	0
Total Other Financing Sources (Uses)	1,044,623	(727,800)	(727,800)	0
Net Change in Fund Balance	(1,679,495)	(742,606)	(742,606)	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,956,764	1,956,764	1,956,764	0
Fund Balance End of Year	\$277,269	\$1,214,158	\$1,214,158	\$0

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2004

	Head Start TANF			Variance from Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental	\$2,421,439	\$2,443,138	\$2,443,138	\$0
Total Revenues	2,421,439	2,443,138	2,443,138	0
Expenditures:				
Current:				
Support Services:				
School Administration	142,051	142,051	142,051	0
Operation of Non-Instructional Services	2,373,206	2,373,204	2,373,204	0
Total Expenditures	2,515,257	2,515,255	2,515,255	0
Excess of Revenues Over (Under) Expenditures	(93,818)	(72,117)	(72,117)	0
Other financing sources (uses):				
Advances In	718,561	725,000	725,000	0
Advances (Out)	0	(628,200)	(628,200)	0
Total Other Financing Sources (Uses)	718,561	96,800	96,800	0
Net Change in Fund Balance	624,743	24,683	24,683	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	396,667	396,667	396,667	0
Fund Balance End of Year	\$1,021,410	\$421,350	\$421,350	\$0

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2004

	Miscellaneous State Grants			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$1,868,970	\$2,046,701	\$2,046,701	\$0
Total Revenues	1,868,970	2,046,701	2,046,701	0
Expenditures:				
Current:				
Support Services:				
Pupil	78,001	67,585	67,585	0
Instructional Staff	1,401,465	1,214,310	1,214,310	0
School Administration	824,216	714,148	714,148	0
Fiscal	101,271	87,747	87,747	0
Total Expenditures	2,404,953	2,083,790	2,083,790	0
Excess of Revenues Over (Under) Expenditures	(535,983)	(37,089)	(37,089)	0
Other financing sources (uses):				
Advances In	231,030	253,000	253,000	0
Advances (Out)	0	(2,000)	(2,000)	0
Total Other Financing Sources (Uses)	231,030	251,000	251,000	0
Net Change in Fund Balance	(304,953)	213,911	213,911	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	62,578	62,578	62,578	0
Fund Balance End of Year	(\$242,375)	\$276,489	\$276,489	\$0

See accompanying notes to the required supplementary information.

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004**

1. BUDGETARY PROCESS

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for the General Fund, Head Start/TANF and the Miscellaneous State Grants on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

While the 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 encumbrances. The Combined Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General fund, Head Start/TANF fund and the Miscellaneous State Grants fund:

Net Change in Fund Balance

	<u>General</u>	<u>Head Start/TANF</u>	<u>Miscellaneous State Grants</u>
GAAP Basis	(\$80,176)	\$868,927	\$608,395
Net Adjustment for Revenue Accruals	819,934	329,703	(9,125)
Net Adjustment for Expenditure Accruals	(1,389,530)	(814,658)	21,400
Encumbrances	<u>(92,834)</u>	<u>(359,289)</u>	<u>(406,759)</u>
Budget Basis	<u>(\$742,606)</u>	<u>\$24,683</u>	<u>\$213,911</u>

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child and Adult Care Food Program	N/A	10.558	\$112,129	\$90,449
Total U.S. Department of Agriculture - Nutrition Cluster			112,129	90,449
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	6B-SI	84.027	1,765,940	1,874,808
Special Education - Preschool Grant	PG-S1	84.173	93,904	70,694
<i>Passed Through SERRC:</i>				
Special Education Grants to States (IDEA Part B)		84.173	68,375	5,266
<i>Passed Through Knox County Educational Service Center:</i>				
S.T.E.P.S. Implementation		84.027	5,000	5,000
<i>Passed Through Franklin County Educational Service Center:</i>				
ESL Interpreters		84.027	16,237	19,677
Pioneer Project		84.027	4,000	4,598
Total Special Education Cluster			1,953,456	1,980,043
Grants to Local Educational Agencies (ESEA Title I)	C1-SD	84.010	80,600	286,549
Eisenhower Prof. Dev. State Grant	MS-S2	84.281	33,280	36,480
Title III LEP	T3-S1	84.365	28,274	28,274
Title II-A Improving Teacher Quality	TR-SA	84.367	290,230	328,884
Total U.S. Department of Education			2,385,840	2,660,230
<u>U.S. DEPARTMENT OF LABOR</u>				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Payments -- Title XIX (Community Alternative Financing System)	nn-n1	93.778	6,628	13,474
Total U.S. Department of Labor			6,628	13,474
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed through State Library of Ohio:</i>				
Library Services and Technology Act	N/A	45.310	54,017	65,685
<i>Passed through Cincinnati-Hamilton County Community Action Agency:</i>				
Head Start	N/A	93.600	3,696,970	4,060,908
Total U.S. Department of Health and Human Services			3,750,987	4,126,593
Totals			\$6,255,584	\$6,890,746

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

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the schedule) summarizes activity of the Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Center contribute non-Federal funds (matching funds) to support Federally-funded programs. The 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 COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231-1499

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 Hamilton County Educational Service Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Center's management in a separate letter dated May 19, 2005.

Internal Control Over Financial Reporting

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

This report is intended for the information and use of the management, Board Members, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 19, 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

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Board of Education:

Compliance

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

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

In our opinion, the 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.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management, the Board Members, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 19, 2005

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #84.027, 84.173 Special Education Cluster CFDA #84.367 Improving Teacher Quality – Title II A CFDA #84.010 Title I
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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HAMILTON COUNTY EDUCATIONAL SERVICE CENTER

HAMILTON 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 21, 2005**