

**MAHONING COUNTY
EDUCATIONAL SERVICE CENTER**

MAHONING COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004**

CYNTHIA LENGYEL, TREASURER



**Auditor of State
Betty Montgomery**

Board of Trustees
Mahoning County Educational Service Center

We have reviewed the Independent Auditor's Report of the Mahoning County Educational Service Center, Mahoning County, prepared by Trimble, Julian & Grube, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mahoning County Educational Service Center is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 19, 2005

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Governing Board
Mahoning County Educational Service Center
100 DeBartolo Pl., Suite 105
Youngstown, Ohio 44512

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center, Mahoning County (the “ESC”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the ESC’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mahoning County 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As disclosed in Note 3 to the financial statements, the ESC implemented Governmental Accounting Standards Board (GASB) Statement 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 Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the fiscal year ended June 30, 2004. In addition, a prior period restatement of capital assets was required due to a change in threshold as disclosed in Note 2.H.

Independent Auditor's Report
Mahoning County Educational Service Center
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004, on our consideration of the ESC'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mahoning County Educational Service Center's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Trimble, Julian & Grube, Inc.
November 19, 2004

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

The management's discussion and analysis of the Mahoning County Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the ESC'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 ESC's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities increased \$298,298 which represents a 6.75% decrease from 2003.
- General revenues accounted for \$2,275,033 in revenue or 16.02% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$11,928,696 or 83.98% of total revenues of \$14,203,729.
- The ESC had \$13,905,431 in expenses related to governmental activities; \$11,928,696 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$2,275,033 were adequate to provide for these programs.
- The ESC's major governmental funds are the general fund and head start fund. The general fund had \$10,025,383 in revenues and other financing sources and \$10,071,291 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$45,908 from \$2,436,612 to \$2,390,704.
- The head start fund had \$1,566,764 in revenues and \$1,475,969 in expenditures. During fiscal year 2004, the head start fund's fund balance increased \$90,795 from \$44,790 to \$135,585.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC'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 ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund and head start fund are by far the most significant funds, and the only governmental funds reported as major funds.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Statement of Net Assets and the Statement of Activities

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

These two statements report the ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the ESC as a whole, the *financial position* of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

The ESC's statement of net assets and statement of activities can be found on pages 12-13 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 9. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental funds are the general fund and head start fund.

Governmental Funds

Most of the ESC'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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-19 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the ESC's fiduciary activities are reported in a separate Statements of Fiduciary Net Assets on page 20. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-43 of this report.

The ESC as a Whole

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

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

	Net Assets
	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 6,294,177
Capital assets	<u>711,213</u>
Total assets	<u>7,005,390</u>
<u>Liabilities</u>	
Current liabilities	1,964,240
Long-term liabilities	<u>321,998</u>
Total liabilities	<u>2,286,238</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	646,897
Restricted	679,945
Unrestricted	<u>3,392,310</u>
Total net assets	<u>\$ 4,719,152</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the ESC's assets exceeded liabilities by \$4,719,152. Of this total, \$3,392,310 is unrestricted in use.

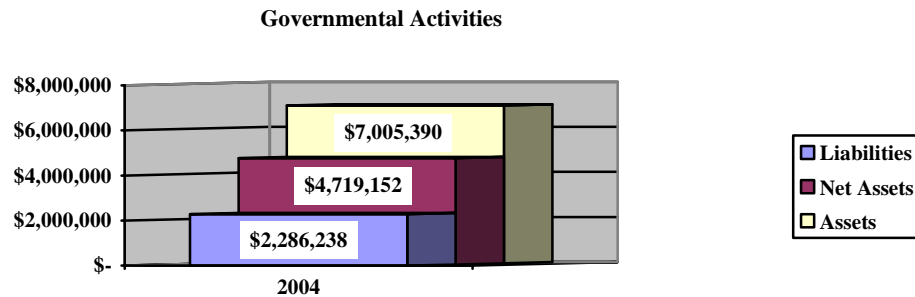
At year-end, capital assets represented 10.15% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$646,897. These capital assets are used to provide services to the students and are not available for future spending. Although the ESC's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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A portion of the ESC's net assets, \$679,945, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,392,310 may be used to meet the ESC's ongoing obligations to the students and creditors.

The table below illustrates the ESC's assets and liabilities and net assets at June 30, 2004



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

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 7,983,597
Operating grants and contributions	3,889,099
Capital grants and contributions	56,000
General revenues:	
Grants and entitlements	2,156,137
Investment earnings	87,985
Other	<u>30,911</u>
Total revenues	<u>14,203,729</u>

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

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 763,500
Special	3,895,152
Vocational	58,428
Support services:	
Pupil	2,857,564
Instructional staff	4,259,367
Board of education	36,047
Administration	410,014
Fiscal	594,683
Business	182,091
Operations and maintenance	235,918
Pupil transportation	166,011
Central	330,826
Operations of non-instructional services	97,163
Intergovernmental pass through	<u>18,667</u>
Total expenses	<u>13,905,431</u>
Change in net assets	<u>\$ 298,298</u>

Governmental Activities

Net assets of the ESC's governmental activities increased \$298,298. Total governmental expenses of \$13,905,431 were offset by program revenues of \$11,928,696 and general revenues of \$2,275,033. Program revenues supported 85.78% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from charges for services and sales, and grants and entitlements. These revenue sources represent 71.39% of total governmental revenue.

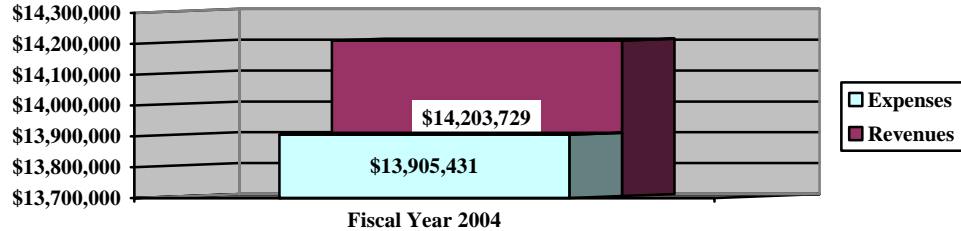
The largest expense of the ESC is for instructional programs. Instruction expenses totaled \$4,717,080 or 33.92% of total governmental expenses for fiscal 2004.

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

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 763,500	\$ 514,725
Special	3,895,152	255,352
Vocational	58,428	39,148
Support services:		
Pupil	2,857,564	242,121
Instructional staff	4,259,367	96,714
Board of education	36,047	36,047
Administration	410,014	29,488
Fiscal	594,683	42,594
Business	182,091	182,091
Operations and maintenance	235,918	158,768
Pupil transportation	166,011	(10,212)
Central	330,826	321,297
Operations of non-instructional services	97,163	71,280
Intergovernmental pass through	18,667	(2,678)
Total expenses	\$ 13,905,431	\$ 1,976,735

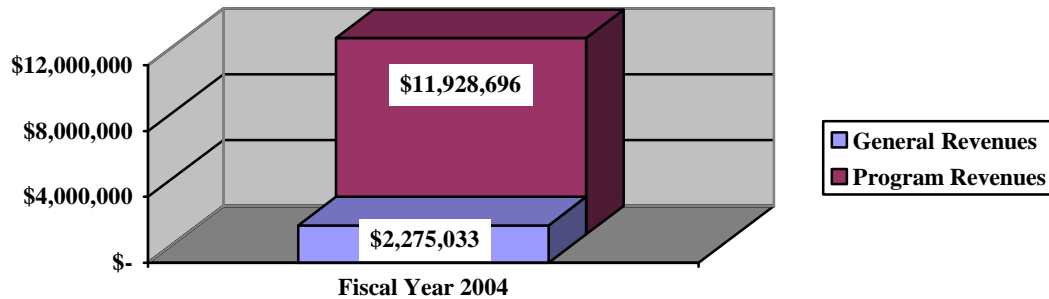
The dependence upon other general revenues for governmental activities is apparent, 17.16% of instruction activities are supported through other general revenues. For all governmental activities, general revenue support is 14.22%. The ESC's charges for services and sales, as a whole, are by far the primary support for ESC's students.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of \$3,058,666, which is higher than last year's total of \$3,024,618. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Restated Fund Balance <u>June 30, 2003</u>	Increase (Decrease)	Percentage Change
General	\$ 2,390,704	\$ 2,436,612	\$ (45,908)	(1.88) %
Head Start	135,585	44,790	90,795	202.71 %
Other Governmental	<u>532,377</u>	<u>543,216</u>	<u>(10,839)</u>	(2.00) %
Total	<u>\$ 3,058,666</u>	<u>\$ 3,024,618</u>	<u>\$ 34,048</u>	1.13 %

General Fund

The ESC's general fund balance decreased by \$45,908 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to increasing revenues and increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$145,846. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase (Decrease)	Percentage Change
Revenues				
Customer services	\$ 6,283,764	\$ 5,160,129	\$ 1,123,635	21.78 %
Tuition	1,361,689	73,509	1,288,180	1,752.41 %
Earnings on investments	92,944	189,487	(96,543)	(50.95) %
Intergovernmental	2,156,137	2,806,914	(650,777)	(23.18) %
Other revenues	<u>30,911</u>	<u>49,758</u>	<u>(18,847)</u>	(37.88) %
Total	<u>\$ 9,925,445</u>	<u>\$ 8,279,797</u>	<u>\$ 1,645,648</u>	19.88 %

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

	2004 <u>Amount</u>	2003 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 4,070,443	\$ 3,199,921	\$ 870,522	27.20 %
Support services	5,865,288	5,251,753	613,535	11.68 %
Capital outlay	99,938	-	99,938	100.00 %
Debt service	<u>35,622</u>	<u>-</u>	<u>35,622</u>	100.00 %
 Total	 <u>\$ 10,071,291</u>	 <u>\$ 8,451,674</u>	 <u>\$ 1,619,617</u>	 19.16 %

Head Start Fund

The head start fund had \$1,566,764 in revenues and \$1,475,969 in expenditures. During fiscal year 2004, the head start fund's fund balance increased \$90,795 from \$44,790 to \$135,585.

General Fund Budgeting Highlights

The ESC'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 ESC amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$10,613,372 and final budgeted revenues and other financing sources were \$10,359,566. Actual revenues and other financing sources for fiscal 2004 was \$9,996,677. This represents a \$362,889 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$10,606,326 were reduced to \$10,445,485 in the final appropriated budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$10,384,379, which was \$61,106 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the ESC had \$711,213 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>Restated 2003</u>
Furniture and equipment	\$ 679,583	\$ 679,892
Vehicles	<u>31,630</u>	<u>38,004</u>
Total	<u>\$ 711,213</u>	<u>\$ 717,896</u>

The overall decrease in capital assets of \$6,683 is due to depreciation expense of \$112,313 exceeding capital outlays of \$105,630 in the fiscal year.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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See Note 7 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2004, the ESC had \$64,316 in a capital lease outstanding. Of this total, \$31,056 is due within one year and \$33,260 is due greater than one year. The following table summarizes the capital lease outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
Capital lease	\$ 64,316	\$ -
Total	<u>\$ 64,316</u>	<u>\$ -</u>

See Note 9 to the basic financial statements for additional information on the ESC's debt administration.

Current Financial Related Activities

The ESC relies heavily on contracts with local, city, parochial and community schools in Mahoning County, state foundation revenue, grants and the fiscal agency role we provide to several entities. Contracts with participating districts are to increase in fiscal year 2005 due to additional service requests from districts. The ESC will be expanding their fiscal, administrative and other services through the recent community school sponsorship approval from the Ohio Department of Education. The new contracts with our locals, the sponsorship capability and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future. There are some challenges that we face that can affect our funding.

One of the challenges that face the ESC is office space. Under state law the County Commissioners are no longer required to provide rent-free space to ESCs. Mahoning County Commissioners signed a 10 year lease for our office, one year prior to this law taking affect. Currently we are paying 40% of the rent and this will increase January 2005 to 60%. With the failure of the 1/2% sales tax levy in Mahoning County, the ESC does not foresee any agreement with the Commissioners to underwrite more than what is required by law.

The second challenge we face is the state's financial situation. The state has reduced dollars to the ESC's state foundation, major programs and grants. These funds offer support to our programs that are offered to the districts the ESC serves. Without these funds local districts are forced pay more of the services they contract for. The ESC is very sensitive to the cost of our programs to Mahoning County districts. Because of the funding reductions made from the State, our districts may be forced to contract for services from other entities who offer a better price.

Another challenge that faces the ESC is the legislation regarding Ohio Regional Education Delivery System and Ohio Department of Education's plan to merge Special Education Regional Resource Centers. What effect these plans will have on the future of the ESC financial operations is uncertain at this time.

Contacting the ESC's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cynthia Lengyel, Treasurer, Mahoning County Educational Service Center, 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

**BASIC
FINANCIAL STATEMENTS**

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government
	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,179,880
Receivables:	
Accounts	2,691
Intergovernmental	2,071,384
Prepayments	13,112
Materials and supplies inventory	27,110
Capital assets:	
Depreciable capital assets, net	711,213
Total assets.	7,005,390
Liabilities:	
Accounts payable.	455,428
Accrued wages and benefits	1,148,884
Pension obligation payable.	198,372
Intergovernmental payable	161,556
Long-term liabilities:	
Due within one year.	118,521
Due more than one year	203,477
Total liabilities	2,286,238
Net Assets:	
Invested in capital assets, net of related debt.	646,897
Restricted for:	
Capital projects	9,359
Other purposes	670,586
Unrestricted.	3,392,310
Total net assets	\$ 4,719,152

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
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STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues			Net (Expense) Revenue and Change in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 763,500	\$ -	\$ 248,775	\$ -	\$ (514,725)
Special	3,895,152	3,258,870	380,930	-	(255,352)
Vocational	58,428	19,280	-	-	(39,148)
Support services:					
Pupil	2,857,564	2,298,622	316,821	-	(242,121)
Instructional staff	4,259,367	1,746,151	2,367,006	49,496	(96,714)
Board of education	36,047	-	-	-	(36,047)
Administration	410,014	282,295	98,231	-	(29,488)
Fiscal	594,683	378,379	172,903	807	(42,594)
Business	182,091	-	-	-	(182,091)
Operations and maintenance	235,918	-	71,453	5,697	(158,768)
Pupil transportation	166,011	-	176,223	-	10,212
Central	330,826	-	9,529	-	(321,297)
Other non-instructional services	97,163	-	25,883	-	(71,280)
Intergovernmental pass through	18,667	-	21,345	-	2,678
Total governmental activities	<u>\$ 13,905,431</u>	<u>\$ 7,983,597</u>	<u>\$ 3,889,099</u>	<u>\$ 56,000</u>	<u>(1,976,735)</u>
General revenues:					
Grants and entitlements not restricted					
to specific programs					
				2,156,137	
				87,985	
				30,911	
				2,275,033	
				2,275,033	
				298,298	
				4,420,854	
				4,420,854	
				\$ 4,719,152	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Head Start	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,899,810	\$ 280,844	\$ 999,226	\$ 4,179,880
Receivables:				
Accounts	2,691	-	-	2,691
Intergovernmental	1,561,928	289,555	219,901	2,071,384
Interfund receivable	293,555	-	-	293,555
Prepayments	11,893	1,219	-	13,112
Materials and supplies inventory	27,110	-	-	27,110
Total assets	\$ 4,796,987	\$ 571,618	\$ 1,219,127	\$ 6,587,732
Liabilities:				
Accounts payable	\$ 12,061	\$ 3,140	\$ 440,227	\$ 455,428
Accrued wages and benefits	999,347	95,507	54,030	1,148,884
Pension obligation payable.	120,871	3,250	5,202	129,323
Intergovernmental payable.	45,343	44,581	71,632	161,556
Interfund payable.	-	289,555	4,000	293,555
Deferred revenue.	1,228,661	-	111,659	1,340,320
Total liabilities	2,406,283	436,033	686,750	3,529,066
Fund Balances:				
Reserved for encumbrances	266,687	100,163	439,925	806,775
Reserved for materials and supplies inventory.	27,110	-	-	27,110
Reserved for prepayments	11,893	1,219	-	13,112
Unreserved, undesignated, reported in:				
General fund	2,085,014	-	-	2,085,014
Special revenue funds.	-	34,203	83,184	117,387
Capital projects funds.	-	-	9,268	9,268
Total fund balances	2,390,704	135,585	532,377	3,058,666
Total liabilities and fund balances	\$ 4,796,987	\$ 571,618	\$ 1,219,127	\$ 6,587,732

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Total governmental fund balances		\$	3,058,666
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			711,213
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Contract services	\$	1,228,661	
Intergovernmental revenue		<u>111,659</u>	
Total			1,340,320
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(257,682)	
Pension obligation payable		(69,049)	
Capital lease obligation		<u>(64,316)</u>	
Total			<u>(391,047)</u>
Net assets of governmental activities		\$	<u><u>4,719,152</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

	<u>General</u>	<u>Head Start</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Tuition.	\$ 1,361,689	\$ -	\$ -	\$ 1,361,689
Earnings on investments.	92,944	-	-	92,944
Customer services	6,283,764	-	-	6,283,764
Other local revenues.	30,911	-	39,405	70,316
Grants in aid from intermediate sources	-	-	120,707	120,707
Intergovernmental - State.	1,775,023	280,843	1,498,699	3,554,565
Intergovernmental - Federal	381,114	1,285,921	675,014	2,342,049
Total revenues.	<u>9,925,445</u>	<u>1,566,764</u>	<u>2,333,825</u>	<u>13,826,034</u>
Expenditures:				
Current:				
Instruction:				
Regular	521,612	-	235,641	757,253
Special.	3,491,101	297,473	66,001	3,854,575
Vocational.	57,730	-	-	57,730
Support services:				
Pupil.	2,536,712	216,715	86,716	2,840,143
Instructional staff	1,909,573	549,644	1,746,175	4,205,392
Board of education	36,047	-	-	36,047
Administration.	311,535	23,902	69,744	405,181
Fiscal	417,571	145,936	20,458	583,965
Business	179,681	-	-	179,681
Operations and maintenance.	159,125	67,312	6,000	232,437
Pupil transportation	-	166,011	-	166,011
Central.	315,044	8,976	-	324,020
Other non-instructional services.	-	-	95,262	95,262
Intergovernmental pass through	-	-	18,667	18,667
Capital outlay.	99,938	-	-	99,938
Debt service:				
Principal retirement	35,622	-	-	35,622
Total expenditures	<u>10,071,291</u>	<u>1,475,969</u>	<u>2,344,664</u>	<u>13,891,924</u>
Excess of revenues over/(under) expenditures .	<u>(145,846)</u>	<u>90,795</u>	<u>(10,839)</u>	<u>(65,890)</u>
Other financing sources (uses):				
Proceeds from capital lease transaction	99,938	-	-	99,938
Total other financing sources (uses)	<u>99,938</u>	<u>-</u>	<u>-</u>	<u>99,938</u>
Net change in fund balances	(45,908)	90,795	(10,839)	34,048
Fund balances at beginning of year (restated)				
	<u>2,436,612</u>	<u>44,790</u>	<u>543,216</u>	<u>3,024,618</u>
Fund balances at end of year.	<u>\$ 2,390,704</u>	<u>\$ 135,585</u>	<u>\$ 532,377</u>	<u>\$ 3,058,666</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	34,048
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (112,313) exceeds outlays (\$105,630) in the current period.		(6,683)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		377,695
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		35,622
Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		(99,938)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(42,446)
Change in net assets of governmental activities	\$	<u>298,298</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 1,110,793	\$ 1,099,793	\$ 1,348,544	\$ 248,751
Earnings on investments	150,000	150,000	159,783	9,783
Customer services.	7,273,940	7,048,134	6,414,077	(634,057)
Other local revenues	33,500	13,500	28,665	15,165
Intergovernmental - State.	1,775,023	1,775,023	1,775,023	-
Intergovernmental - Federal	255,000	255,000	258,469	3,469
Total revenues	<u>10,598,256</u>	<u>10,341,450</u>	<u>9,984,561</u>	<u>(356,889)</u>
Expenditures:				
Current:				
Instruction:				
Regular	630,890	621,322	558,557	62,765
Special.	3,603,250	3,548,607	3,523,224	25,383
Vocational.	72,634	71,533	62,241	9,292
Support services:				
Pupil.	2,618,473	2,578,765	2,535,254	43,511
Instructional staff	2,016,131	1,985,557	1,898,951	86,606
Board of education	57,235	56,367	48,195	8,172
Administration.	330,934	325,916	316,559	9,357
Fiscal	452,062	445,207	417,593	27,614
Business	214,860	211,602	193,219	18,383
Operations and maintenance.	258,501	254,581	213,567	41,014
Central.	349,122	343,828	323,464	20,364
Total expenditures	<u>10,604,092</u>	<u>10,443,285</u>	<u>10,090,824</u>	<u>352,461</u>
Excess of revenues over (under) expenditures.	<u>(5,836)</u>	<u>(101,835)</u>	<u>(106,263)</u>	<u>(4,428)</u>
Other financing sources (uses):				
Refund of prior year expenditure.	2,116	2,116	2,116	-
Transfers (out)	(2,234)	(2,200)	-	2,200
Advances in.	13,000	16,000	10,000	(6,000)
Advances (out)	-	-	(293,555)	(293,555)
Total other financing sources (uses)	<u>12,882</u>	<u>15,916</u>	<u>(281,439)</u>	<u>(297,355)</u>
Net change in fund balance	7,046	(85,919)	(387,702)	(301,783)
Fund balance at beginning of year (restated).	2,895,999	2,895,999	2,895,999	-
Prior year encumbrances appropriated . .	147,644	147,644	147,644	-
Fund balance at end of year	<u>\$ 3,050,689</u>	<u>\$ 2,957,724</u>	<u>\$ 2,655,941</u>	<u>\$ (301,783)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental - State	\$ -	\$ 280,843	\$ 280,843	\$ -
Intergovernmental - Federal	1,440,400	1,430,520	996,366	(434,154)
Total revenues	<u>1,440,400</u>	<u>1,711,363</u>	<u>1,277,209</u>	<u>(434,154)</u>
Expenditures:				
Current:				
Instruction:				
Special	309,324	363,779	361,650	2,129
Support services:				
Pupil	214,793	252,607	257,973	(5,366)
Instructional staff	380,389	447,355	562,773	(115,418)
Administration	14,803	17,409	24,623	(7,214)
Fiscal	178,565	210,000	145,936	64,064
Operations and maintenance	70,323	82,703	67,894	14,809
Pupil transportation	173,701	204,280	166,011	38,269
Central	15,164	17,834	9,106	8,728
Total expenditures	<u>1,357,062</u>	<u>1,595,967</u>	<u>1,595,966</u>	<u>1</u>
Excess of revenues over (under) expenditures	<u>83,338</u>	<u>115,396</u>	<u>(318,757)</u>	<u>(434,153)</u>
Other financing sources (uses):				
Transfers in	-	280,843	280,843	-
Transfers (out)	(238,905)	(280,963)	(280,843)	120
Advances in	-	-	289,555	289,555
Total other financing sources (uses)	<u>(238,905)</u>	<u>(120)</u>	<u>289,555</u>	<u>289,675</u>
Net change in fund balance	(155,567)	115,276	(29,202)	(144,478)
Fund balance at beginning of year	-	-	-	-
Prior year encumbrances appropriated	<u>165,567</u>	<u>165,567</u>	<u>165,567</u>	<u>-</u>
Fund balance at end of year	<u>\$ 10,000</u>	<u>\$ 280,843</u>	<u>\$ 136,365</u>	<u>\$ (144,478)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 593,919
Cash with fiscal agent	
Receivables:	
Intergovernmental	536,728
Total assets.	\$ 1,130,647
Liabilities:	
Accounts payable.	\$ 98,525
Accrued wages and benefits	116,872
Intergovernmental payable	588,439
Pension obligation payable.	14,408
Undistributed monies	312,403
Total liabilities	\$ 1,130,647

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ESC

On July 18, 1914, the Mahoning County Governing Board was formed. In 1996 the Governing Board, as required by state law, underwent a name change to the Mahoning County Educational Service Center (the "ESC"). The ESC provides administrative, curricular, instructional, pupil personnel and professional staff development services to local school districts. Direct instructional programs are provided to students with disabilities, preschool students and their families.

The ESC operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by state and federal agencies. The Governing Board oversees the ESC's operation and its staff of 146 certificated and 59 non-certificated personnel. Staff members support the educational efforts of 11 local school districts, 2 city school districts and their 27,500 students. In addition, staff members also support the Mahoning County Unlimited Classroom and its 120 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organizations' government board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; or (3) the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the ESC has one component unit.

The ESC is fiscal agent for the Mahoning County Family and Children First Council (the "Council"). The ESC is responsible for receiving and disbursing funds at the direction of the Council. This entity is legally separate from the ESC. The ESC is fiscal agent and custodian for the Council, but is not accountable; therefore, the operations of the Council have been included as an agency fund in the ESC's basic financial statements. The funds invested on behalf of the Council have been included in the basic financial statements as "Equity in Pooled Cash and Cash Equivalents".

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

COMPONENT UNIT

Mahoning County Unlimited Classroom ("MCUC")

The MCUC is a legally separate, conversion community school, served by a Board of Directors. The MCUC focuses on providing students with curriculum and instruction via distance learning technology. The seven person Board of Directors, appointed by the ESC, consists of three persons employed in administrator positions with the ESC, one person employed in an administrator position with the Mahoning County Career and Technical Center, one person who is neither an officer nor employee of the ESC or MCCT who shall be a public educator or other public office, one person who is appointed to represent the interests of the parents and students of the MCUC, and the MCUC's Treasurer. The MCUC treasurer is an non-voting ex-officio of the Board of Directors. The Lucas County ESC sponsored the MCUC during fiscal year 2004 under Ohio Law Section 3314. Based on the significant services provided by the ESC to the MCUC, the MCUC's purpose of service to the students within the district, and the relationship between the Board of Education of the ESC and the Board of Directors of the MCUC, the MCUC is a component unit of the ESC. Separately issued financial statements can be obtained by the ESC's Treasurer. During fiscal year 2004, the MCUC's financial activity was immaterial in fiscal 2004 and was not included in the ESC's financial statements, but will be included in future years.

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS is a jointly governed organization among 23 school districts, 1 community school, 1 special education resource center, 2 county educational service centers, and 2 career and technical centers. 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. The nine-member Board of Directors consists of 2 treasurers and 6 superintendents from participating school districts. The ACCESS treasurer is an ex-officio member of the Board of Directors. The degree of control exercised by any participating school district is limited to its representation on the board. Mahoning County Educational Service Center is the fiscal agent for the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting and designating management. The consortium revenues are generated from charges for services, state funding and E-rateable services.

Northeast Ohio Special Education Regional Resource Center (NEOSERRC)

NEOSERRC is a special education service 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. NEOSERRC is governed by a governing board of 39 members made up of representatives from 35 superintendents of the participating districts, 1 non-public school, 1 county board of mental retardation and 2 parents whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the board. The ESC serves as fiscal agent for NEOSERRC, which is accounted for in an agency fund.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

Region 12 Professional Development Center (RPDC)

The RPDC is a jointly governed organization among the school districts located in Trumbull, Mahoning, and Columbiana Counties, and Youngstown City. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The RPDC is governed by a governing board made up of 19 representatives of the participating school districts, the business community, and Youngstown State University. Members' terms rotate annually. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The ESC serves as fiscal agent for RPDC. Financial activity for fiscal 2004 is reported in the financial statements as an agency fund.

RELATED ORGANIZATION

Mahoning County Career and Technical Center

The Mahoning County Career and Technical Center is a joint vocational school district as defined by Section 3311.18 of the Ohio Revised Code. The 5 members of the Governing Board of the ESC are also members of the Governing Board of the Mahoning County Career and Technical Center, which includes 2 other members. The Governing Board of the ESC cannot directly impose their will on the Mahoning County Career and Technical Center.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP 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 OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating members pay an enrollment fee to the GRP to cover the cost of administering the program.

Mahoning County Insurance Consortium

The Mahoning County Insurance Consortium is a shared risk pool comprised of 13 Mahoning County school districts. The consortium is governed by an assembly, which consists of 1 representative from each participating school district (usually the superintendent or designee). The assembly elects officers for 1 year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

B. Fund Accounting

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the ESC'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 - This fund accounts for the distribution of monies to Head Start agencies to expand their programs to serve more eligible children, including the lease of additional classroom space, to acquire materials, to pay license fees, and to hire and train Head Start agency staff.

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no proprietary funds.

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. The ESC's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

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

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the ESC during the fiscal year for which payment is not received in the available period. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

E. Budgets

An Educational Service Center is required by state statute, 3317.11 ORC, to submit an annual budget of operating expenses to the State Governing Board for approval.

The ESC legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the ESC's Governing Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the ESC summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the state for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the ESC. Part (C) includes the adopted appropriation resolution of the ESC. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the ESC the amount from part (B) that is to be apportioned to their district.

The ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from state resources.

Part (B) of the budget is provided by the school districts served by the ESC, and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the ESC by \$37.00. This amount is provided from State Resources.

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

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

If additional funding is needed for the ESC, and if a majority of the Boards of Education of the school districts served by the ESC 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 ESC through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The districts to which the ESC provides service have agreed to pay \$8.50 per pupil, or an additional \$2.00 per pupil, to provide additional funding for services provided by the ESC.

APPROPRIATIONS

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

The ESC's Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions. All supplemental appropriations were legally enacted by the Governing Board during fiscal 2004.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to non-negotiable certificates of deposit, federal agency securities, U.S. treasury securities, U.S. government money market funds and State Treasury Asset Reserve (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

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

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

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$92,944, which includes \$37,120 assigned from other ESC funds.

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

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The ESC increased its capitalization threshold during fiscal 2004 from \$300 to \$1,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 11 years
Vehicles	11 years

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

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

I. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies the method used to accrue liabilities for leave benefits. 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 ESC will compensate the employees for the benefits through paid time off or some other means. The ESC 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 method. An accrual for earned sick leave is made to the extent that is probable that benefits will result in termination payments. The liability is an estimate based on the ESC's past experience of making termination payments.

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

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

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employees retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees are paid.

J. Interfund Balances

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

K. Pass-Through Grants

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

L. 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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance Reserves

The ESC 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, materials and supplies inventory and prepayments.

N. Net Assets

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

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the governmental funds balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the governmental funds time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset on the fund financial statements.

P. Estimates

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

Q. Interfund Activity

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

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

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

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the ESC 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. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

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

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

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

In addition to implementing GASB Statement No. 34, the ESC switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

	<u>General</u>	<u>Head Start</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 2,417,991	\$ 44,790	\$ 532,237	\$ 2,995,018
Fund reclassifications	321	-	-	321
Implementation of GASB Interpretation No. 6	<u>18,300</u>	<u>-</u>	<u>10,979</u>	<u>29,279</u>
Restated fund balance, June 30, 2003	<u>\$ 2,436,612</u>	<u>\$ 44,790</u>	<u>\$ 543,216</u>	<u>\$ 3,024,618</u>

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$2,895,678 to \$2,895,999 due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34.

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

	<u>Total</u>
Restated fund balance, June 30, 2003	\$ 3,024,618
GASB 34 adjustments:	
Long-term (deferred) assets	962,625
Capital assets	717,896
Pension obligation	(68,034)
Long-term liabilities	<u>(216,251)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 4,420,854</u>

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Alternative Education Challenge	\$ 5,166
Miscellaneous State Grants	13,702

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The ESC maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the ESC 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 ESC treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, 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 custodial credit risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements”.

Deposits: At year-end, the carrying amount of the ESC’s deposits was \$1,135,222 and the bank balance was \$2,603,064. These balances include \$200,000 in non-negotiable certificates of deposit. Of the bank balances:

1. \$382,370 was covered by federal depository insurance.
2. \$2,220,694 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the ESC. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the ESC to a successful claim by the FDIC.

Investments: The ESC’s investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the ESC. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the ESC’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the ESC’s name. Investments in STAR Ohio and U.S. Government money market funds are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Category <u>2</u>	Carrying <u>Amount</u>	Fair <u>Value</u>
Repurchase agreements	\$ 2,903,263	\$ 2,903,263	\$ 2,903,263
U.S. treasury securities	446,406	446,406	446,406
STAR Ohio	-	199,769	199,769
U.S. government money market	-	89,139	89,139
Total investments	<u>\$ 3,349,669</u>	<u>\$ 3,638,577</u>	<u>\$ 3,638,577</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,773,799	\$ -
Investments of the cash management pool:		
Federal agency securities	(2,903,263)	2,903,263
U.S. Treasury securities	(446,406)	446,406
STAR Ohio	(199,769)	199,769
U.S. Government money market	<u>(89,139)</u>	<u>89,139</u>
GASB Statement No. 3	<u>\$ 1,135,222</u>	<u>\$ 3,638,577</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Head Start fund	\$ 289,555
General	Other governmental funds	4,000

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

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of accounts and intergovernmental grants and entitlements. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Accounts	\$ 2,691
Intergovernmental	<u>2,071,384</u>
Total	<u>\$ 2,074,075</u>

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

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

NOTE 7 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail) and the depreciation of capital assets in accordance with GASB Statement No. 34.

	Balance <u>06/30/03</u>	<u>Adjustments</u>	Restated Balance <u>06/30/03</u>
Governmental Activities			
<i>Capital assets, being depreciated:</i>			
Furniture and equipment	\$ 1,216,722	\$ (168,083)	\$ 1,048,639
Vehicles	<u>67,140</u>	<u>-</u>	<u>67,140</u>
Total capital assets, being depreciated	<u>1,283,862</u>	<u>(168,083)</u>	<u>1,115,779</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(397,883)</u>	<u>(397,883)</u>
Governmental activities capital assets, net	<u>\$ 1,283,862</u>	<u>\$ (565,966)</u>	<u>\$ 717,896</u>

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

	Restated Balance <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/04</u>
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 1,048,639	\$ 105,630	\$ -	\$ 1,154,269
Vehicles	<u>67,140</u>	<u>-</u>	<u>-</u>	<u>67,140</u>
Total capital assets, being depreciated	<u>1,115,779</u>	<u>105,630</u>	<u>-</u>	<u>1,221,409</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(368,747)	(105,939)	-	(474,686)
Vehicles	<u>(29,136)</u>	<u>(6,374)</u>	<u>-</u>	<u>(35,510)</u>
Total accumulated depreciation	<u>(397,883)</u>	<u>(112,313)</u>	<u>-</u>	<u>(510,196)</u>
Governmental activities capital assets, net	<u>\$ 717,896</u>	<u>\$ (6,683)</u>	<u>\$ -</u>	<u>\$ 711,213</u>

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

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 10,431
Special	26,103

Support Services:

Pupil	10,403
Instructional staff	34,222
Administration	21,131
Fiscal	2,981
Business	1,660
Operations and maintenance	3,481
Other non-instructional services	<u>1,901</u>

Total depreciation expense	<u>\$ 112,313</u>
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NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

- A. During fiscal 2004, the ESC entered into a capitalized lease agreement for the acquisition of computer equipment.

These lease agreements met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds.

Capital assets consisting of computer equipment have been capitalized in the amount of \$99,938. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2004 totaled \$35,622 in the general fund.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Copier</u>
2005	\$ 35,622
2006	<u>35,621</u>
Total minimum lease payments	71,243
Less: amount representing interest	<u>(6,927)</u>
Total	<u>\$ 64,316</u>

- B.** During fiscal year 2002, the Area Cooperative Computerized Educational Service System (ACCESS), accounted for in the Computer Network agency fund, entered into a \$7,200,000 capital lease to increase the band width capacity of its computer network by acquiring and equipping a fiber optic network. This lease meets the criteria of a capital lease by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. The lease has an annual interest rate of 1% and the monthly principal and interest payments of \$84,589 are paid out of the Computer Network agency fund.

NOTE 9 - LONG-TERM OBLIGATIONS

The balance of the ESC's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$50,758 from \$165,493 to \$216,251 due to the implementation of GASB Interpretation No. 6 and the change in accounting principle described in Note 3.A. In addition, pension obligations of \$75,011 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$24,253 from \$240,504 to \$216,251. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Capital lease obligation	\$ -	\$ 99,938	\$ (35,622)	\$ 64,316	\$ 31,056
Compensated absences	<u>216,251</u>	<u>144,474</u>	<u>(103,043)</u>	<u>257,682</u>	<u>87,465</u>
Total	<u>\$ 216,251</u>	<u>\$ 244,412</u>	<u>\$ (138,665)</u>	<u>\$ 321,998</u>	<u>\$ 118,521</u>

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from the negotiated agreement and state laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and certificated personnel employed for less than 260 days do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum of 52 days.

B. Medical and Life Insurance

The ESC provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company, in the amount of \$25,000.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The ESC 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 ESC contracted with Cincinnati Insurance Company for property and general liability insurance.

Professional liability is provided by the Ohio School Plan with a \$3,000,000 annual aggregate/\$1,000,000 single occurrence limit and no deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$50 deductible for comprehensive and a \$500 deductible for collision. Automobile liability has a \$1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2004, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual performance 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 members that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Employee Medical Benefits

The ESC has contracted with the Mahoning County Insurance Consortium to provide employee medical/surgical, dental and prescription drug benefits. The ESC contributes \$558.33 toward medical/surgical premiums of \$768.35 for family coverage and pays \$291.67 for single coverage. Monthly premiums for prescription drug insurance are \$107.24 for single coverage and \$239.11 for family coverage, of which the ESC contributes \$75.00 for single coverage and \$110.42 for family coverage. Premiums for dental coverage are \$60.94 monthly on a composite basis and the ESC contributes \$58.33.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$388,593, \$342,814, and \$207,652, respectively; 100% has been contributed for each year.

B. State Teachers Retirement System

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The ESC's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$878,244, \$696,255, and \$439,803, respectively; 100% has been contributed for each year. Contributions to the DC and Combined Plans for fiscal year 2004 were \$18,817 made by the ESC and \$27,060 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Governing Board have elected Social Security. The ESC's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the ESC, this amount equaled \$67,557 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$284,911 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

	<u>General Fund</u>	<u>Head Start</u>
Budget basis	\$ (387,702)	\$ (29,202)
Net adjustment for revenue accruals	(59,116)	289,555
Net adjustment for expenditure accruals	(256,850)	(24,482)
Net adjustment for other sources/uses	381,377	(289,555)
Adjustment for encumbrances	<u>276,383</u>	<u>144,479</u>
GAAP basis	<u>\$ (45,908)</u>	<u>\$ 90,795</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The ESC is not currently party to any legal proceedings.

C. State School Funding Decision

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

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

SUPPLEMENTAL DATA

MAHONING COUNTY EDUCATIONAL SERVICE CENTER
 SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Child and Adult Care Food Program	10.558	048280-CC-CP-2004	\$ 5,399	\$ 5,399
Child and Adult Care Food Program	10.558	048280-CC-MO-2004	91,882	91,882
Total U.S. Department of Agriculture			<u>97,281</u>	<u>97,281</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE N/A				
Expedition into Teaching American History	84.215X	S215X020367	273,685	275,057
Teaching American History Grants	84.215X	U215X030334	96,711	97,041
Total American History			<u>370,396</u>	<u>372,098</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Title I - Grants to Local Educational Agencies	84.010	048280-C1-ST-2003	62,491	63,113
Total Title I			<u>62,491</u>	<u>63,113</u>
Special Education Cluster:				
(A) Special Education: Grants to States	84.027	048280-6B-AA-2003-P	21,875	30,410
(A) Special Education: Grants to States	84.027	048280-6B-SI-2003-P	120,135	288,126
(A) Special Education: Grants to States	84.027	048280-6B-SI-2004-P	1,053,461	956,708
(A) Special Education: Grants to States	84.027	048280-6B-II-2003-P	58,437	75,932
(A),(C) Special Education: Grants to States	84.027	N/A	-	1,505
(A),(D) Special Education: Grants to States	84.027	N/A	-	6,000
(A),(E) Special Education: Grants to States	84.027	N/A	-	4,000
Total Special Education: Grants to States			<u>1,253,908</u>	<u>1,362,681</u>
(A) Special Education Preschool	84.173	048280-PG-SI-2004	102,630	102,630
Total Special Education Cluster			<u>1,356,538</u>	<u>1,465,311</u>
Safe and Drug Free Community Service Grant	84.184C	048280-T4-S1-2004	25,715	13,023
Safe and Drug-Free Schools and Communities - State Grants	84.186	048280-DR-S2-2002	50,731	31,436
Safe and Drug-Free Schools and Communities - State Grants	84.186	048280-DR-S2-2004	13,477	17,277
Total Safe and Drug-Free Schools and Communities - State Grants			<u>64,208</u>	<u>48,713</u>
Eisenhower Professional Development	84.281	048280-MS-S1-2000	-	22
Eisenhower Professional Development	84.281	048280-MS-S2-2001	-	7,529
Eisenhower Professional Development	84.281	048280-MS-S2-2002	50,803	52,660
Total Eisenhower Professional Development			<u>50,803</u>	<u>60,211</u>
(F) Twenty-First Century Community Learning Center	84.287	048280-T1-S1-2003	-	142,043
(F) Twenty-First Century Community Learning Center	84.287	048280-T1-S1-2004	429,674	418,101
Total Twenty-First Century Community Learning Center			<u>429,674</u>	<u>560,144</u>
Comprehensive School Reform Demonstration	84.332	048280-RF-S3-2002	16,640	16,640
Improving Teacher Quality	84.367	048280-TR-SA-2004	15,327	12,587
Total U.S. Department of Education			<u>2,391,792</u>	<u>2,611,840</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:				
Temporary Assistance for Needy Families	93.558	N/A	996,366	1,161,933
Community Alternative Funding System Program	93.778	N/A	258,469	258,469
Total U.S. Department of Health and Human Services			<u>1,254,835</u>	<u>1,420,402</u>
Total Federal Financial Assistance			<u>\$ 3,743,908</u>	<u>\$ 4,129,523</u>

- (A) Included as part of "Special Education Grant Cluster" in determining major programs.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) These funds were passed through the Hamilton County Educational Service Center.
- (D) These funds were passed through the North Eastern Ohio Special Education Regional Resource Center ("NEOSERRC") Ohio Resource Center for Low Incidence and Severely Handicapped ("ORCLISH") and the Department of Education - Office of Exceptional Children.

- (E) These funds were passed through the NEORC NERC.
- (F) The District serves as fiscal agent for this program and monitors the award monies passed through to the Mahoning County Family and Children First Council. The District records expenditures of federal awards when paid. Under OMB A-133, the District is responsible for monitoring Family and Children First Council to help assure that federal awards are expended for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Governing Board
Mahoning County Educational Service Center
100 DeBartolo Pl., Suite 105
Youngstown, Ohio 44512

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mahoning County Educational Service Center as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. During the fiscal year ended June 30, 2004, the Mahoning County Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, a prior period restatement of capital assets was required due to a change in threshold as disclosed in Note 2.H. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Governing Board
Mahoning County Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahoning County Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Governing Board of the Mahoning County Educational Service Center, 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 cursive script that reads "Trimble, Julian & Grube, Inc.".

Trimble, Julian & Grube, Inc.
November 19, 2004

TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance In Accordance With *OMB Circular A-133*

Governing Board
Mahoning County Educational Service Center
100 DeBartolo Pl., Suite 105
Youngstown, Ohio 44512

Compliance

We have audited the compliance of the Mahoning County 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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The Mahoning County Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, a prior period restatement of capital assets was required due to a change in threshold as disclosed in Note 2.H. The Mahoning County Educational Service 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 Mahoning County Educational Service Center's management. Our responsibility is to express an opinion on the Mahoning County 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, Audit 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mahoning County Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mahoning County Educational Service Center's compliance with those requirements.

Governing Board
Mahoning County Educational Service Center

In our opinion, the Mahoning County 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 fiscal year ended June 30, 2004.

Internal Control Over Compliance

The management of the Mahoning County Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mahoning County Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 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 solely for the information and use of the management, the Governing Board of the Mahoning County Educational Service Center, 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.



Trimble, Julian & Grube, Inc.
November 19, 2004

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Funds for the Improvement of Education; CFDA #84.215X, Twenty-First Century Community Learning Center; CFDA #84.287, Special Education Cluster; CFDA #84.027 and #84.173.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**MAHONING COUNTY EDUCATIONAL SERVICE CENTER
MAHONING COUNTY, OHIO**

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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MAHONING COUNTY EDUCATIONAL SERVICE CENTER

MAHONING 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
FEBRUARY 10, 2005**