

Pickaway County Educational Service Center

Pickaway County

Regular Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

**BALESTRA, HARR & SCHERER CPAs, INC.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Board of Education  
Pickaway County Educational Service Center  
1080 State Route 22 West  
Circleville, Ohio 43113

We have reviewed the *Independent Auditor's Report* of the Pickaway County Educational Service Center, Pickaway County, prepared by Balestra, Harr & Scherer CPAs, 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 Pickaway County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 23, 2005

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# BALESTRA, HARR & SCHERER CPAs, INC.

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board  
Pickaway County Educational Service Center  
1080 State Route 22 West  
Circleville, Ohio 43113

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 Center, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

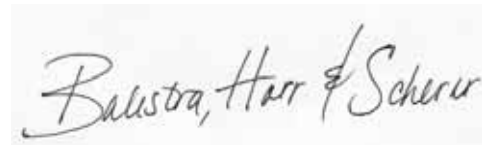
In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2005, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and 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 on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board  
Pickaway County Educational Service Center  
Circleville, Ohio 43113

Independent Auditor's Report  
Page 2

As described in Note 3 to the basic financial statements, the 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 for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", and GASB Statement No. 39, "*Determining Whether Certain Organizations are Component Units*" and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*".

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 8, 2005



**Pickaway County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
**(Unaudited)**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*", issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

**FINANCIAL HIGHLIGHTS**

- The Center's assets exceeded its liabilities at June 30, 2004 by \$729,981.
- The Center's net assets of governmental activities decreased \$76,759.
- General revenues accounted for \$861,078 in revenue or 32 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$1,817,543 or 68 percent of total revenues of \$2,678,621.
- The Center had \$2,755,380 in expenses related to governmental activities; \$1,817,543 of these expenses was offset by program specific charges for services and sales and operating grants and contributions.

**USING THIS ANNUAL FINANCIAL REPORT**

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Center's financial situation as a whole and also give a detailed view of the Center's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the Center as a whole and present a longer-term view of the Center's finances. Major 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 the amount of funds available for future spending. The fund financial statements also look at the Center's most significant funds with all other non-major funds presented in total in one column.

**Pickaway County Educational Service Center**  
***Management's Discussion and Analysis***  
***For the Fiscal Year Ended June 30, 2004***  
***(Unaudited)***

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**REPORTING THE CENTER AS A WHOLE**

The analysis of the Center as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the Center is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Center's net assets and changes to those assets. This change informs the reader whether the Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the Center's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the Center has only one kind of activity.

- *Governmental Activities* - All of the Center's programs and services are reported here including support services, operation and maintenance of capital assets, and pupil transportation.

**REPORTING THE CENTER'S MOST SIGNIFICANT FUNDS**

*Fund Financial Statements* - The analysis of the Center's funds begins on page 7. Fund financial statements provide detailed information about the Center's major fund – not the Center as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the Center is meeting legal responsibilities for use of grants. The Center's major fund is the General Fund.

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

**Pickaway County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
**(Unaudited)**

**THE CENTER AS A WHOLE**

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

Table 1  
Net Assets

	2004	2003*
Assets:		
Current Assets	\$869,102	\$922,627
Capital Assets, Net	296,046	282,426
Total Assets	1,165,148	1,205,053
Liabilities:		
Current and Other Liabilities	237,485	165,578
Long-Term Liabilities	197,683	232,735
Total Liabilities	435,168	398,313
Net Assets:		
Invested in Capital Assets, Net of Related Debt	296,046	282,426
Restricted	41,597	4,200
Unrestricted	392,338	520,114
Total Net Assets	\$729,981	\$806,740

\* As Restated – See Note 3

Total net assets of the Center as a whole decreased \$76,759. The balances of 2003 reflect changes due to a prior period adjustment as further discussed in Note 3, Change in accounting principle and restatement of balances.

**Pickaway County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
**(Unaudited)**

**THE CENTER AS A WHOLE (CONTINUED)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 are not available.

Table 2  
Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$1,230,546
Operating Grants & Contributions	586,997
Total Program Revenues	1,817,543
General Revenues:	
Grants and Entitlements	844,402
Investment Earnings	4,714
Other	11,962
Total General Revenues	861,078
Total Revenues	2,678,621
Program Expenses	
Instruction	
Regular	\$160,339
Special	94,739
Adult/Continuing	70,435
Other	500
Support Services	
Pupil	1,001,985
Instructional Staff	633,167
Board of Education	18,096
Administration	315,195
Fiscal	98,432
Business	177,303
Operation and Maintenance of Plant	32,155
Central	153,034
Total Expenses	2,755,380
Net Assets at Beginning of Year (As Restated)	806,740
Increase (Decrease) in Net Assets	(76,759)
Net Assets at End of Year	\$729,981

**Pickaway County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2004**  
**(Unaudited)**

**THE CENTER AS A WHOLE (CONTINUED)**

*Governmental Activities* - Charges for services and sales comprised 46 percent of revenue for governmental activities, while operating grants and contributions comprised 22 percent of revenue for governmental activities of the Center for fiscal year 2004.

As indicated by governmental program expenses, support services are emphasized. Support services for pupils comprised 36 percent of governmental program expenses with support services for Instructional Staff comprising 23 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3  
 Total and Net Cost of Program Services  
 Governmental Activities

	2004	
	Total Cost of Services	Net Cost of Services
Instruction	\$326,013	\$57,703
Support Services	2,429,367	(995,540)
Total Expenses	\$2,755,380	(\$937,837)

**THE CENTER'S FUNDS**

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,678,620 and expenditures of \$2,709,097. The net change in fund balance for the General Fund was an increase of \$39,227 and for All Other Governmental Funds was a decrease of \$69,704.

**GENERAL FUND BUDGETING HIGHLIGHTS**

The Center's budget is prepared as a management tool, as according to Ohio law the Center is no longer required to submit annual budgetary documents with an oversight authority. The Center's budget 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 year 2004, the Center amended its General Fund budget, but not significantly.

For the General Fund, budget basis revenue was \$2,087,950, above original estimates of \$1,599,772. Of this \$488,178 difference, most was due to more intergovernmental and program services monies being received than anticipated. For the General Fund, expenditures and encumbrances were \$2,002,531, below original estimates of \$2,269,210. Of this \$266,679, most was due to the decrease in administration costs. The Center's ending unobligated General Fund balance was \$771,716.

**Pickaway County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets* - At the end of fiscal year 2004, the Center had \$296,046 invested in its capital assets. Table 4 shows the fiscal year 2004 balances compared to 2003.

Table 4  
Capital Assets - Governmental Activities  
(Net of Accumulated Depreciation)

	<u>2004</u>	<u>2003</u>
Land	\$48,570	\$16,479
Buildings	207,250	213,088
Furniture and Equipment	40,226	52,859
Totals	<u>\$296,046</u>	<u>\$282,426</u>

Changes in capital assets from the prior year resulted from the addition of equipment and depreciation expense. See Note 6 to the basic financial statements for more detailed information related to capital assets and Note 3 regarding the restatement of 2003 capital asset figures.

**DEBT**

At June 30, 2004, the Center did not have any outstanding debt obligations.

**CONTACTING THE CENTER'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the Center's financial condition and to show the Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shannon Clark, Treasurer, Pickaway County Educational Service Center, 1080 State Route 22 West, Circleville, Ohio 43113.

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

	Governmental Activities
<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$854,702
Accrued Interest Receivable	463
Accounts Receivable	188
Intergovernmental Receivable	13,749
Noncurrent Assets:	
Non-Depreciable Capital Assets	48,570
Depreciable Capital Assets, net	247,476
<i>Total Assets</i>	\$1,165,148
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	\$7,679
Accrued Wages and Benefits	100,384
Intergovernmental Payable	129,421
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	42,502
Due in More Than One Year	155,181
<i>Total Liabilities</i>	435,167
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	296,046
Restricted for Other Purposes	41,597
Unrestricted	392,338
<i>Total Net Assets</i>	\$729,981

The notes to the financial statements are an integral part of this statement.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$160,339	\$40,281	\$94,445	(\$25,613)
Special	94,739	44,682	144,812	94,755
Adult/Continuing	70,435	16,198	43,298	(10,939)
Other	500	0	0	(500)
<b>Support Services:</b>				
Pupils	1,001,985	508,868	14,297	(478,820)
Instructional Staff	633,167	295,902	66,661	(270,604)
Board of Education	18,096	9,307	0	(8,789)
Administration	315,195	155,733	11,546	(147,916)
Fiscal	98,432	48,616	4,691	(45,125)
Business	177,303	44,198	109,419	(23,686)
Operation and Maintenance of Plant	32,155	30,187	0	(1,968)
Central	153,034	36,574	97,828	(18,632)
<b>Total Governmental Activities</b>	<b>2,755,380</b>	<b>1,230,546</b>	<b>586,997</b>	<b>(937,837)</b>
<b>General Revenues:</b>				
Grants and Entitlements not Restricted to Specific Programs				844,402
Investment Earnings				4,714
Miscellaneous				11,962
<b>Total General Revenues</b>				<b>861,078</b>
<b>Change in Net Assets</b>				<b>(76,759)</b>
<b>Net Assets Beginning of Year (As Restated - See Note 3)</b>				<b>806,740</b>
<b>Net Assets End of Year</b>				<b>\$729,981</b>

The notes to the financial statements are an integral part of this statement.



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

	General Fund	All Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$771,517	\$83,185	\$854,702
Accrued Interest Receivable	463	0	463
Accounts Receivable	188	0	188
Interfund Receivable	13,696	0	13,696
Intergovernmental Receivable	79	13,670	13,749
<i>Total Assets</i>	<u>\$785,943</u>	<u>\$96,855</u>	<u>\$882,798</u>
<b>LIABILITIES:</b>			
Accounts Payable	\$1,405	\$6,274	\$7,679
Accrued Wages and Benefits	79,732	20,652	100,384
Interfund Payable	0	13,696	13,696
Intergovernmental Payable	29,678	4,789	34,467
<i>Total Liabilities</i>	<u>110,815</u>	<u>45,411</u>	<u>156,226</u>
<b>FUND BALANCES:</b>			
Reserved:			
Reserved for Encumbrances	0	478	478
Unreserved, Undesignated, Reported in:			
General Fund	675,128	0	675,128
Special Revenue Funds	0	50,966	50,966
<i>Total Fund Balances</i>	<u>675,128</u>	<u>51,444</u>	<u>726,572</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$785,943</u>	<u>\$96,855</u>	<u>\$882,798</u>

The notes to the financial statements are an integral part of this statement.

**Pickaway County Educational Service Center**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2004**

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Total Governmental Fund Balances		\$726,572
<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.		296,046
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(94,954)
Long-Term Liabilities including long-term portion of compensated absences not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(197,683)	
Total		(197,683)
Net Assets of Governmental Activities		\$729,981

The notes to the financial statements are an integral part of this statement.

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

	General Fund	All Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Intergovernmental	\$980,374	\$451,025	\$1,431,399
Program Services	1,064,604	65,412	1,130,016
Interest	4,714	0	4,714
Tuition and Fees	0	100,529	100,529
Miscellaneous	11,962	0	11,962
<i>Total Revenues</i>	<u>2,061,654</u>	<u>616,966</u>	<u>2,678,620</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	10,795	157,562	168,357
Special	70,566	13,735	84,301
Adult/Continuing	542	67,109	67,651
<b>Support Services:</b>			
Pupils	933,840	22,135	955,975
Instructional Staff	523,443	100,264	623,707
Board of Education	18,096	0	18,096
Administration	307,978	17,919	325,897
Fiscal	86,729	7,253	93,982
Business	7,720	146,592	154,312
Operation and Maintenance of Plant	58,693	0	58,693
Central	960	157,166	158,126
<i>Total Expenditures</i>	<u>2,019,362</u>	<u>689,735</u>	<u>2,709,097</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>42,292</u>	<u>(72,769)</u>	<u>(30,477)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>			
Transfers In	0	3,065	3,065
Transfers Out	(3,065)	0	(3,065)
<i>Total Other Financing Sources and Uses</i>	<u>(3,065)</u>	<u>3,065</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	39,227	(69,704)	(30,477)
<i>Fund Balance at Beginning of Year (As Restated - See Note 3)</i>	<u>635,901</u>	<u>121,148</u>	<u>757,049</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$675,128</u>	<u>\$51,444</u>	<u>\$726,572</u>

The notes to the financial statements are an integral part of this statement.

**Pickaway County Educational Service Center**  
**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**

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Net Change in Fund Balances - Total Governmental Funds	(\$30,477)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	37,451	
Current Year Depreciation	(18,925)	
Total		18,526

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets	(4,906)	
Total		(4,906)

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

Decrease in Compensated Absences	35,052	
Increase in Intergovernmental Payable	(94,954)	
Total		(59,902)

Net Change in Net Assets of Governmental Activities	(\$76,759)
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The notes to the financial statements are an integral part of this statement.

**Pickaway County Educational Service Center**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget and Actual (Budget Basis)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Intergovernmental	\$502,907	\$588,226	\$999,087	\$410,861
Program Services	914,865	1,233,649	1,070,564	(163,085)
Interest	10,000	4,599	4,599	0
Miscellaneous	172,000	261,516	13,700	(247,816)
<i>Total Revenues</i>	<u>1,599,772</u>	<u>2,087,990</u>	<u>2,087,950</u>	<u>(40)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	11,232	11,232	11,163	69
Special	74,360	74,360	70,250	4,110
Adult/Continuing	4,320	5,820	542	5,278
<b>Support Services:</b>				
Pupils	1,018,746	1,018,746	929,221	89,525
Instructional Staff	475,667	476,926	514,483	(37,557)
Board of Education	29,593	29,593	18,104	11,489
Administration	493,885	968,189	303,397	664,792
Fiscal	89,407	89,407	86,356	3,051
Business	12,000	12,000	8,395	3,605
Operation and Maintenance of Plant	59,000	134,923	59,660	75,263
Central	1,000	1,000	960	40
<i>Total Expenditures</i>	<u>2,269,210</u>	<u>2,822,196</u>	<u>2,002,531</u>	<u>819,665</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(669,438)</u>	<u>(734,206)</u>	<u>85,419</u>	<u>819,625</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Refund of Prior Year Expenditures	0	0	42	42
Advances In	0	0	64,747	64,747
Transfers Out	0	0	(3,065)	(3,065)
Advances Out	0	0	(55,933)	(55,933)
<i>Total Other Financing Sources and Uses</i>	<u>0</u>	<u>0</u>	<u>5,791</u>	<u>5,791</u>
<i>Net Change in Fund Balances</i>	<u>(669,438)</u>	<u>(734,206)</u>	<u>91,210</u>	<u>825,416</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	680,307	680,307	680,307	0
<i>Prior Year Encumbrances Appropriated</i>	<u>199</u>	<u>199</u>	<u>199</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$11,068</u>	<u>(\$53,700)</u>	<u>\$771,716</u>	<u>\$825,416</u>

The notes to the financial statements are an integral part of this statement.

**Pickaway County Educational Service Center**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2004*

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ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,530</u>
<i>Total Assets</i>	<u><u>\$1,530</u></u>
LIABILITIES:	
Undistributed Monies	<u>\$1,530</u>
<i>Total Liabilities</i>	<u><u>\$1,530</u></u>

See accompanying notes to the basic financial statements

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 1 - DESCRIPTION OF THE CENTER AND REPORTING ENTITY**

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

A. Description of the Entity:

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a County School District as defined by Section 313 of the Ohio Revised Code (ORC).

The Center is governed by a five member Governing Board elected by the citizens of Pickaway County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves local school districts: Logan Elm Local, Teays Valley Local, and Westfall Local as provided by Senate Bill 140, ORC Section 3313.483. Circleville City School District and other school districts outside Pickaway County are served on an individual contract basis for various services.

B. Reporting Entity:

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

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations for which the Center approves the budget, the issuance of debt or levying of taxes. As of June 30, 2004, the Center had no component units.

The Center is associated with three jointly governed organizations and one joint venture. These organizations are the Metropolitan Educational Council, Pickaway-Ross Joint Vocational School District, and the Central Ohio Special Education Regional Resource Center, and the Pickaway County Alternative School For Success. These organizations are discussed in Note 14 and 15.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Fund Accounting

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below. The Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

The Center's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Center functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

*Governmental Fund Types:*

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following is the Center's major governmental fund:

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

The other governmental funds of the Center account for grants and other resources, whose uses are restricted for particular purposes.

*Fiduciary Fund Type:*

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary fund is an agency fund which accounts for workers' compensation activity.

B. Basis of Presentation

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



**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basis of Presentation (Continued)

*Government-wide Financial Statements:*

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government. The statement of net assets presents the financial condition of governmental activities of the Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program. Revenues that are not classified as program revenues are presented as general revenues of the Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

*Fund Financial Statements:*

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

C. Measurement Focus and Basis of Accounting

*Government-wide Financial Statements* - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

*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. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus and Basis of Accounting (Continued)

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

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

The modified accrual basis is utilized for reporting purposes by the governmental fund types. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest, grants, tuition and fees.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Fees for contractual services, provided by the Center, received, but not earned, as of June 30, 2004, have been recorded as deferred revenue.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

D. Budgetary Process

The Center does not receive tax monies and therefore is not required by the Ohio Revised Code to file a budget with the County Budget Commission. However, the Center does pass annual estimated resources and appropriation measures, which are approved by the Board of Education as amendments to estimated resources and appropriations.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Budgetary Process (Continued)

*Encumbrances:*

Encumbrance accounting is utilized by the Center for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements. Encumbrances are reported as part of expenditures on a non-GAAP budgetary basis in the Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Budget Basis) for the General Fund.

*Lapsing of Appropriations:*

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Center is pooled. Monies for all funds, including the fiduciary fund, are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$4,714.

For presentation on the balance sheet and statement of net assets, investments in the cash management pool and investments with original activities of three months or less at the time they are purchased, are considered to be cash equivalents.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

F. Capital Assets and Depreciation

All capital assets of the Center are general capital assets that are associated with governmental activities. General capital assets 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 were updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of \$300. The Center 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 except land and construction in progress 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>Estimated Lives</u>
Furniture and Equipment	5-10 years

G. Intergovernmental Revenues

In governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred and the funding is available.

H. Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due to/from Other Funds". Also, receivables and payables resulting from short-term interfund loans and unpaid amounts for interfund services are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

I. Interfund Transactions

During the course of normal operations the Center had transactions between funds. The most significant included routine transfers of resources, from one fund to another fund, through which resources to be expended are recorded as operating transfers.

J. Compensated Absences

GASB Statement No. 16, "Accounting for Compensated Absences", specifies that compensated absences should be accrued as they are earned by employees if both of the following conditions are met:

1. The employee's right to receive compensation is attributable to services already rendered.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

J. Compensated Absences (Continued)

2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payments.

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 Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records all liability for accumulated unused sick leave for classified employees after 10 years of current service with the Center and for certified employees and administrators after 10 years of service.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

K. 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, once incurred, that are paid in full and in a timely manner from current financial resources, are reported as obligations of the funds. However, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. The Center had long-term obligations at June 30, 2004 as disclosed in Note 7.

L. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted for specific purposes.

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

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

M. Fund Balance Reserves

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

N. Estimates

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

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BALANCES**

*Changes in Accounting Principles:*

For the fiscal year 2004, the Center has 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 for State and Local Governments : Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.*” GASB Statement No. 34 creates new basic financial statements for reporting on the Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, “*Determining Whether Certain Organizations are Component Units.*” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. The implementation of GASB Statement 39 had no effect on the Center for fiscal year 2004.

Implementation of these Statements requires certain adjustments be recorded to the June 30, 2003 fund balances of major and nonmajor funds of the Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented. The prior period adjustment is due to the correction of an error related to capital assets not booked in prior years.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF BALANCES (CONTINUED)**

	General	Non Major	Total
Fund balances, June 30, 2003	\$602,345	\$120,637	\$722,982
Correction of errors	(7,380)	0	(7,380)
Restatement of Capital Assets	0	(5,050)	(5,050)
Adjustments necessary to comply with GAAP	40,936	5,561	46,497
Restated fund balances, June 30, 2003	\$635,901	\$121,148	757,049
Adjustments necessary to comply with GASB 34:			
Capital Assets			52,859
Compensated Absences			(232,735)
Other adjustments			
Prior Period Adjustment			229,567
Governmental Activities Net Assets, June 30, 2003			\$806,740

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (CONTINUED)**

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

	<u>General</u>
GAAP Basis	\$39,227
Adjustments	
Revenue Accruals	91,085
Expenditure Accruals	(25,207)
Advances	(13,696)
Encumbrances	(199)
Budget Basis	\$91,210

**NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS**

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the balance sheet and statement of net assets as "Equity in Pooled Cash and Investments." State statutes classify monies held by the Center into three categories.

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

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

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

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



**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)**

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

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

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

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

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

**Deposits** At fiscal year end, the carrying amount of the Center's deposits was \$319,177 and the bank balance was \$437,956. Of the bank balance, \$100,000 was covered by federal depository insurance. \$337,956 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

**Pickaway County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2004**

**NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (CONTINUED)**

**Investments** The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterpart's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name. The Center's investments in STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair/Carrying Value
STAR Ohio	<u>\$537,055</u>

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$856,232	\$0
STAR Ohio	<u>(537,055)</u>	<u>537,055</u>
GASB Statement No. 3	<u>\$319,177</u>	<u>\$537,055</u>

**NOTE 6 - CAPITAL ASSETS**

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

	Restated Beginning Balance June 30, 2003*	Additions	Deletions	Ending Balance June 30, 2004
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$16,479	\$32,091	\$0	\$48,570
Total Capital Assets, Note Being Depreciated	<u>16,479</u>	<u>32,091</u>	<u>0</u>	<u>48,570</u>
Capital Assets, Being Depreciated				
Building	233,521	0	0	233,521
Furniture and Equipment	359,519	5,360	(5,299)	359,580
Total Depreciable Capital Assets	<u>593,040</u>	<u>5,360</u>	<u>(5,299)</u>	<u>593,101</u>
Less: Accumulated Depreciation				
Building	(20,433)	(5,838)	0	(26,271)
Furniture and Equipment	(306,660)	(13,087)	393	(319,354)
Total Accumulated Depreciation	<u>(327,093)</u>	<u>(18,925)</u>	<u>393</u>	<u>(345,625)</u>
Total Capital Assets being Depreciated, Net	<u>265,947</u>	<u>(13,565)</u>	<u>(4,906)</u>	<u>247,476</u>
Governmental Activities Capital Assets, Net	<u>\$282,426</u>	<u>\$18,526</u>	<u>(\$4,906)</u>	<u>\$296,046</u>

\*As restated, see Note 3.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

Depreciation Expense was charged to governmental functions as follows:

Regular Instruction	\$ 2,221
Special Instruction	464
Adult/Continuing Instruction	2,784
Support Services:	
Pupils	675
Instructional Staff	2,388
Administration	2,438
Operation and Maintenance of Plant	7,538
Central	<u>417</u>
Total Depreciation Expense	<u>\$18,925</u>

**NOTE 7 - LONG-TERM LIABILITIES**

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

	Beginning Balance June 30, 2003	Increase	Decrease	Ending Balance June 30, 2004	Due Within One year
Compensated Absences	\$232,735	\$197,683	\$232,735	\$197,683	\$42,502
Total Long-Term Liabilities	\$232,735	\$197,683	\$232,735	\$197,683	\$42,502

Compensated absences will be paid from the fund from which the employees' salaries are paid.

**NOTE 8 - DEFINED BENEFIT PENSION PLANS**

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

**Pickaway County Educational Service Center**  
***Notes to the Basic Financial Statements***  
***For the Fiscal Year Ended June 30, 2004***

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**NOTE 8 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$32,373, \$41,990, and \$52,073, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$5,640 represents the unpaid contribution for fiscal year 2004.

**B. State Teachers Retirement System**

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 8 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$269,775, \$210,087, and \$199,546, respectively; 69 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$83,838 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

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

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

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

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 9 - POSTEMPLOYMENT BENEFITS (CONTINUED)**

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

**NOTE 10- RISK MANAGEMENT**

The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

During fiscal year 2004, the Center contracted with Cincinnati Insurance for general property insurance. The coverage has a \$250 deductible with replacement cost insurance of \$207,800.

Professional liability is protected by The Ohio School Plan with \$1,000,000 each occurrence, \$3,000,000 aggregate limit. Public officials' bond insurance is provided by The Travelers Casualty and Surety Company of America. The Treasurer is covered by a bond in the amount of \$50,000.

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

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

**NOTE 11 – INTERFUND TRANSACTION**

At June 30, 2004, the Center had short-term interfund loans which are classified as "interfund receivables/payables." An analysis of interfund balances is as follows:

	Receivables	Payables
General Fund	\$13,696	\$0
Non-Major Funds:		
Family Literacy	0	820
2003/2004 Abuse	0	4,628
SchoolNet	0	24
2003/2004 Wellness	0	8,224
Total	\$13,696	\$13,696

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 11 – INTERFUND TRANSACTION (CONTINUED)**

Interfund balances relate to advances from the General Fund in anticipation of the receipt of grant monies.

**NOTE 12 – INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2004, consist of the following:

		Transfer From
		General
Transfer		
To:	Other Governmental Funds	\$3,065

Transfers are used as operating subsidies to cover expenses incurred over revenues brought in.

**NOTE 13 - COMPLIANCE**

State statute requires all funds to have expenditures and encumbrances within approved appropriation limits. All funds of the Center had expenditures and encumbrances within the approved appropriations.

**NOTE 14 - JOINTLY GOVERNED ORGANIZATION**

*Metropolitan Educational Council (MEC)* – MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each County selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

*Central Ohio Special Education Regional Resource Center (COSERRC)* – The Center passes a motion each year to become a member of COSERRC. The superintendent of the Center is appointed by the Center to be delegate to the Governing Board.

COSERRC provides special education services at a regional level, as determined by each of the participating local school districts. The Center has no ongoing financial interest or financial responsibility to COSERRC.

*Pickaway-Ross Joint Vocational School* – The Vocational School District is a distinct political subdivision of the State of Ohio. The Pickaway-Ross Joint Vocational School District has an eleven-member board of education. The Center has three board members as representatives to the Pickaway-Ross Joint Vocational School District Board. The Pickaway-Ross Joint Vocational School District possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross Joint Vocational School District, 895 Crouse Chapel Road, Chillicothe, Ohio 45601-9010.

The Center has no ongoing financial interest or financial responsibility to the Pickaway-Ross Joint Vocational School District.

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 15 – JOINT VENTURE**

The Center, local and city school districts and the county juvenile court system have formed a joint venture agreement to provide an educational program called PASS (Pickaway County Alternative School for Success). Initial investment by the Center was \$10,000. The Center is the fiscal agent for the program, which is reported as a special revenue fund. Program revenues will consist of contributions from the participating local and city school districts, the Center, and the county juvenile court system, and fees received from the school districts participating in the program.

On June 1 of each year, the Center, as fiscal agent, will determine if there are excess costs or revenue. Payment by the participating districts for any excess operational cost is based on a formula using total district enrollment days. Should revenue exceed costs, the Center shall carry the balance forward to the new fiscal year or distribute to the participating districts according to the formula should the alternative school be abolished. No excess operating costs were levied for the year ending June 30, 2004.

**NOTE 16 – STATE FUNDING**

The Center is funded by the State Department of Education for the cost of Part (A) of its budget. Part (A) is income based on employed certificated personnel as reported on CS-1 Form for county educational service centers. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. The income is based upon a formula established by Section 3317.11 ORC and State Board of Education Policy. 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 Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. That State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The three local school districts, Logan Elm, Teays Valley and Westfall, have agreed to increase their funding (Part B) to the Center by an additional \$2.75 per student effective July 1, 2000.

**NOTE 17 - SCHOOL FUNDING COURT 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".

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

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

**Pickaway County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**NOTE 18 - CONTINGENCIES**

A. Grants

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

B. Litigation

The Center is not party to legal proceedings.

**NOTE 19 – SUBSEQUENT EVENTS**

In January 2005, the Center entered into an agreement with Branden LLC for the purpose of selling off property, including that on which its office is located, for a contract price of \$329,900. In turn, the Center entered into an agreement with Amamas Inc. for the purpose of acquiring property, onto which its office will move, for a contract price of \$592,000. In addition to the agreement of purchasing property, the Center entered into an agreement with Amamas for \$160,000 to renovate the purchased property to be completed by May 2005, upon which time the Center will move to this location.

**NOTE 20 – RECEIVABLES**

Receivables at June 30, 2004, consisted of accounts, interest, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected in one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund	\$ 79
Nonmajor Special Revenue Funds:	
Family Literacy	335
Bus Driver Safety	550
2003/2004 Abuse	4,561
2003/2004 Wellness	8,224
Total Nonmajor Special Revenue Funds	<u>13,670</u>
Total Intergovernmental Receivables	<u>\$ 13,749</u>



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Ohio Society of Certified Public Accountants

## **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***

Members of the Board  
Pickaway County Educational Service Center  
1080 State Route 22 West  
Circleville, Ohio 43113

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pickaway County Educational Service Center, Pickaway County, Ohio, (the Center), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's basic 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 the audit committee, management, and members of the Board, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

February 8, 2005





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
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**PICKAWAY COUNTY EDUCATIONAL SERVICE CENTER**

**PICKAWAY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 2, 2005**