



**Auditor of State
Betty Montgomery**

**LOGAN COUNTY EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, OH 43310

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 and the respective budgetary comparison for the General Fund and the Alternative School Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2005 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 3, 2005

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$92,967.
- Program specific revenues, in the form of charges for services and operating grants and contributions, accounted for \$859,133, or 37 percent of total revenues.
- The Center had \$2,460,437 in total expenses; 34 percent of which were offset by program specific charges for services and operating grants and contributions.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Center's operations and activities as a whole, or as an entire operating entity.

The *Statement of Net Assets and the Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the finances of the Center and a longer-term view of those finances. Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and the available funds for long-term 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 a single column. This level of detail is meant to enhance the financial statements.

Reporting the Logan County Educational Service Center as a Whole

The *Statement of Net Assets and the Statement of Activities* reflect how the Center did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that, which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors. Factors can be financial or non-financial. Non-financial factors include mandated educational programs, as well as locally requested programs.

All of the Center's programs and services provided are reported as governmental activities. These activities include: instruction, support services, and non-instructional services.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Reporting the Center's Most Significant Funds

Fund financial statements provide detailed information about the Center's major funds are the General Fund and the Alternative School Special Revenue Fund.

All of the Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Center's operations and the basic services it provides.

The relationship, or differences, between governmental activities reported on the statement of net assets and the statement of activities and in the governmental funds is reconciled in the financial statements.

Reporting the Center's Fiduciary Responsibilities

The Center acts as a fiscal agent for another entity. This activity is reported in an agency fund. The Center's fiduciary activities are reported in separate Statement of Fiduciary Net Assets on page 17. This activity is excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 19-37 of this report.

The Center as a Whole

Table 1 provides a summary of the Center's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

**Table 1
Net Assets
Governmental Activities**

	<u>2004</u>
<u>Assets:</u>	
Current and Other Assets	\$374,934
Capital Assets, Net	68,287
Total Assets	<u>443,221</u>
<u>Liabilities:</u>	
Current and Other Liabilities	434,278
Long-Term Liabilities	98,901
Total Liabilities	<u>533,179</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	68,287
Restricted	(647)
Unrestricted (Deficit)	<u>(157,598)</u>
Total Net Assets	<u>(\$89,958)</u>

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**Table 2
Change in Net Assets
Governmental Activities**

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$778,950
Operating Grants, Contributions and Interest	80,183
General Revenues:	
Grants and Entitlements	1,489,172
Interest	4,551
Gifts and Donations	4,370
Miscellaneous	10,244
Total Revenues	2,367,470
Program Expenses	
Instruction:	
Regular	1,127
Special	952,186
Other	44
Support Services:	
Pupils	578,369
Instructional Staff	433,298
Board of Education	4,660
Administration	152,683
Fiscal	257,221
Operation and Maintenance of Plant	11,320
Central	48,449
Non-Instructional	18,366
Extracurricular Activities	2,719
Total Expenses	2,460,437
Increase (Decrease) in Net Assets	(\$93,267)

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Table 3 indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services.

**Table 3
Cost of Services**

	Total Cost of Services	Net Cost of Services
	2004	2004
Instruction:		
Regular	\$1,127	\$1,127
Special	952,186	180,024
Other	44	44
Support Services:		
Pupils	578,364	578,364
Instructional Staff	433,298	349,310
Board of Education	4,660	4,660
Administration	152,683	152,683
Fiscal	257,221	257,221
Operation and Maintenance of Plant	11,320	11,320
Central	48,449	48,449
Non-Instructional	18,366	18,366
Extracurricular Activities	2,719	(264)
Total Expenses	<u>\$2,460,437</u>	<u>\$1,601,304</u>

The dependence upon unrestricted state entitlements for governmental activities is apparent. Over 19 percent of instruction activities are supported through other general revenues. For all governmental activities, support from general revenues is 66 percent. The remaining 34 percent are derived from tuition and fees, specific grants, and donations.

The Center's Funds

The Center's governmental funds are accounted for using the modified accrual basis of accounting. Total revenues were \$2,367,470 and expenditures were \$2,496,021 which indicates the Center had difficulty in meeting current costs.

Budgeting Highlights

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

As services provided to the local school districts change during the fiscal year, adjustments are made from the original budget. One example of a need to increase the budget would be an increase in classroom students. Teacher Aides, which had not been budgeted for originally, would be added due to classroom enrollment factors. This type of request generally comes directly from the Superintendent of the school district where the classroom unit is housed. Additions to personnel are the primary cause for budget revisions and are approved by Center's Board.

For the General Fund, original budgeted revenues, in the amount of \$2,069,268 were below the final budgeted revenues, in the amount of \$2,221,268. The change was less than 8 percent.

Expenditures were budgeted at \$2,340,946 while actual expenditures were \$2,178,734. Again this change was generally insignificant.

Capital Assets

At the end of fiscal year 2004, the Center had \$68,287 invested in capital assets (net of accumulated depreciation). For further information regarding the Center's capital assets, see Note 8 of the basic financial statements.

Debt

The Center had no debt in fiscal year 2004. The only long-term obligations of the Center are related to compensated absences. For further information regarding the Center's long-term obligations, see Note 13 of the basic financial statements.

Current Issues

The Logan County Commissioner will continue to provide us with office space at no cost.

Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Center's finances and to reflect accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sara Tracey, Treasurer, Logan County Educational Service Center, 121 South Opera Street, Bellefontaine, Ohio 43311.

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**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$336,896
Accounts Receivable	17,068
Accrued Interest Receivable	91
Intergovernmental Receivable	20,879
Depreciable Capital Assets, Net	<u>68,287</u>
 Total Assets	 <u><u>443,221</u></u>
Liabilities:	
Accounts Payable	32,000
Accrued Wages and Benefits Payable	246,690
Intergovernmental Payable	107,070
Matured Compensated Absences Payable	48,518
Long Term Liabilities:	
Due in More Than One Year	<u>98,901</u>
 Total Liabilities	 <u><u>533,179</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	68,287
Restricted for Other Purposes	(647)
Unreserved, Undesignated	<u>(157,598)</u>
 Total Net Assets	 <u><u>(\$89,958)</u></u>

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**STATEMENT OF ACTIVITIES
AS OF JUNE 30, 2004**

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions, and Interest</u>
			<u>Governmental Activities</u>
Governmental Activities:			
Instruction:			
Regular	\$1,127		(\$1,127)
Special	952,186	772,162	(180,024)
Other	44		(44)
Support services:			
Pupils	578,364		(578,364)
Instructional Staff	433,298	3,805	80,183
Board of Education	4,660		(4,660)
Administration	152,683		(152,683)
Fiscal	257,221		(257,221)
Operation and Maintenance of Plant	11,320		(11,320)
Central	48,449		(48,449)
Non-Instructional Services	18,366		(18,366)
Extracurricular Activities	2,719	2,983	264
Total Governmental Activities	\$2,460,437	\$778,950	\$80,183
			(1,601,304)
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			1,489,172
Gifts and Donations			4,370
Investment Earnings			4,551
Miscellaneous			10,244
Total General Revenues			1,508,337
Change in Net Assets			(92,967)
Net Assets Beginning of Year (Restated)			3,009
Net Assets End of Year			(\$89,958)

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General Fund</u>	<u>Alternative School Fund</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$285,455	\$24,550	\$26,891	\$336,896
Accounts Receivable	16,054	1,014		17,068
Accrued Interest Receivable	91			91
Intergovernmental Receivable	20,879			20,879
Total Assets	<u>322,479</u>	<u>25,564</u>	<u>26,891</u>	<u>374,934</u>
Liabilities:				
Accounts Payable	30,536	279	1,185	32,000
Accrued Wages and Benefits Payable	218,809	27,315	566	246,690
Intergovernmental Payable	84,733	12,471		97,204
Matured Compensated Absences Payable	48,518			48,518
Total Liabilities	<u>382,596</u>	<u>40,065</u>	<u>1,751</u>	<u>424,412</u>
Fund Balances:				
Reserved for Encumbrances	53,014	12,048	7,636	72,698
Unreserved, Undesignated Reported In				
General Fund	(113,131)			(113,131)
Special Revenue Funds		(26,549)	17,504	(9,045)
Total Fund Balances	<u>(60,117)</u>	<u>(14,501)</u>	<u>25,140</u>	<u>(49,478)</u>
Total Liabilities and Fund Balances	<u>\$322,479</u>	<u>\$25,564</u>	<u>\$26,891</u>	<u>\$374,934</u>

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

EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET ASSETS OF GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

Total Governmental Fund Balances	(\$49,478)
Amounts reported for governmental activities on the statement of net assets are different because of the following:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	68,287
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.	(9,866)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	
Compensated Absences Payable	<u>(98,901)</u>
Net Assets of Governmental Activities	<u><u>(\$89,958)</u></u>

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

	<u>General Fund</u>	<u>Alternative School Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$1,486,172		\$83,183	\$1,569,355
Interest	4,551			4,551
Tuition and Fees	240,708	205,570		446,278
Extracurricular Activities			2,983	2,983
Gifts and Donations		235	4,135	4,370
Customer Sales and Services	325,884		3,805	329,689
Miscellaneous	9,044	1,200		10,244
Total Revenues	<u>2,066,359</u>	<u>207,005</u>	<u>94,106</u>	<u>2,367,470</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,127			1,127
Special	697,540	257,589	39,763	994,892
Other			44	44
Support services:				
Pupils	574,051			574,051
Instructional Staff	392,489		50,772	443,261
Board of Education	4,668			4,668
Administration	134,380		2,968	137,348
Fiscal	259,003			259,003
Operation and Maintenance of Plant	11,320			11,320
Central	48,173			48,173
Non-Instructional Services	17,018		2,397	19,415
Extracurricular activities			2,719	2,719
Total Expenditures	<u>2,139,769</u>	<u>257,589</u>	<u>98,663</u>	<u>2,496,021</u>
Net Change in Fund Balance	(73,410)	(50,584)	(4,557)	(128,551)
Fund Balances at Beginning of Year (Restated)	<u>13,293</u>	<u>36,083</u>	<u>29,697</u>	<u>79,073</u>
Fund Balances at End of Year	<u><u>(\$60,117)</u></u>	<u><u>(\$14,501)</u></u>	<u><u>\$25,140</u></u>	<u><u>(\$49,478)</u></u>

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds (\$128,551)

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

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

Capital Outlay - Depreciable Capital Assets	\$2,800	
Depreciation	(5,938)	
	(3,138)	(3,138)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	1,822	
Compensated Absences Payable	36,900	
	38,722	38,722

Change in Net Assets of Governmental Activities (\$92,967)

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Intergovernmental	\$1,446,268	\$1,548,268	\$1,522,183	(\$26,085)
Interest	8,000	8,000	4,605	(3,395)
Tuition and Fees	240,000	290,000	251,797	(38,203)
Customer Sales and Services	375,000	375,000	325,884	(49,116)
Total Revenues	2,069,268	2,221,268	2,104,469	(116,799)
Expenditures:				
Current:				
Instruction:				
Special	823,136	823,136	739,071	84,065
Support services:				
Pupils	596,471	596,471	580,470	16,001
Instructional Staff	395,860	395,860	380,299	15,561
Board of Education	6,745	6,745	4,817	1,928
Administration	131,098	131,098	120,164	10,934
Fiscal	294,728	294,728	272,046	22,682
Operation and Maintenance of Plant	11,578	11,578	11,273	305
Central	56,132	56,132	49,048	7,084
Non-Instructional Services	25,198	25,198	21,546	3,652
Total Expenditures	2,340,946	2,340,946	2,178,734	162,212
Net Change in Fund Balance	(271,678)	(119,678)	(74,265)	45,413
Fund Balance at Beginning of Year	180,661	180,661	180,661	
Prior Year Encumbrances Appropriated	91,018	91,018	91,018	
Fund Balance at End of Year	\$1	\$152,001	\$197,414	\$45,413

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Tuition and Fees	\$199,500	\$224,500	\$218,099	(\$6,401)
Gifts and Donations	500	500	235	(265)
Miscellaneous		1,200	1,200	
Total Revenues	200,000	226,200	219,534	(6,666)
Expenditures:				
Current:				
Instruction:				
Special	254,564	267,264	261,875	5,389
Total Expenditures	254,564	267,264	261,875	5,389
Net Change in Fund Balance	(54,564)	(41,064)	(42,341)	(1,277)
Fund Balance at Beginning of Year	37,867	37,867	37,867	
Prior Year Encumbrances Appropriated	16,697	16,697	16,697	
Fund Balance at End of Year	\$0	\$13,500	\$12,223	(\$1,277)

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

EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$104,776</u>
Liabilities:	
Undistributed Monies	<u>\$104,776</u>

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

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**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

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

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Logan County Educational Service Center (the "Center") is located in Bellefontaine, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to Benjamin Logan, Riverside, and Indian Lake Local School Districts. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Center is operated under a locally elected Board form of government consisting of five members at-large for staggered four terms. The Center has 36 support staff employees and 29 certified teaching personnel that provide service to the local and city school districts.

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

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 that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Center.

The Center is associated with several organizations, which are defined as jointly governed organizations and two public entity risk pools. These organizations include the Western Ohio Computer Organization, Ohio Hi-Point Joint Vocational School, the West Central Ohio Special Education Regional Resource Center, the Logan County Family and Children First Council, the Logan County Education Foundation, the Logan County Schools Benefit Plan Association, and the Ohio School Boards Association Worker's Compensation Group Rating Plan. These organizations are discussed in Notes 14 and 15 to the general-purpose financial statements.

The Center serves as fiscal agent for the Family and Children First Council, a jointly governed organization for the Center. The Center also is the cash conduit for various grant funds belonging to the three school districts within the County. Accordingly, this activity is presented within the Center's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Center's basic financial statements consist of government-wide financial 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.

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

2. Fund Financial Statements

During the fiscal year, the Center segregates 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 governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

1. Governmental Funds

Governmental funds are those through which most governmental functions of the Center 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 Center has two major governmental funds:

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Alternative School Special Revenue Fund – The Alternative School Special Revenue Fund is used to account for alternative educational programs for existing and new at-risk and delinquent youth.

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

2. Fiduciary Funds

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

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

2. 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

The investment trust fund is accounted for using a flow of economic resources measurement focus.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; the fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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. On the accrual basis, 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 fiscal 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 the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

2. Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

3. Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Center), and Part (C) includes the adopted appropriation resolution.

The Center's Board adopts an annual appropriation resolution which is the Board's authorization to spent resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the function level within the General Fund and the fund level in all other funds. The Treasurer has been authorized to allocate appropriations to the object level in the General Fund and the function and object level within all other funds.

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

F. Cash and Investments

To improve the cash management, cash received by the Center is pooled. Monies for all funds are maintained in the pool. Individual fund integrity is maintained through the Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

The Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$4,551.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

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

H. Capital Assets

All of the Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Center's capitalization threshold is five hundred dollars. The Center does not have any infrastructure. Improvements are capitalized. All 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>Estimated Lives</u>
Buildings	40 years
Furniture and Fixtures	5 - 20 years
Equipment	10 years

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the 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 a liability for accumulated unused sick leave for all employees after twenty years of current service with the Center, or after fifteen years of service and at least forty five years of age, or after five years of service and at least fifty years of age.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, contractually required pension obligations and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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 to expenditure for specified purposes.

The Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves

The Center reserves those portions of fund balance 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 which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances.

M. Interfund Transactions

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

N. 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 management and are either unusual in nature or infrequent in occurrence.

O. Estimates

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balances

For fiscal year 2004, the District has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments;" GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus;" GASB No. 38, "Certain Financial Statement Note Disclosures;" 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 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the District'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. Fiduciary funds are reported by type.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 37 clarifies certain provisions of GASB 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 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 District restated the fund liability of compensated absences that had not matured during fiscal year 2004.

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

1. Restatement of Fund Balance

The restatements due to the implementation of the above statements and GASB Interpretation No. 6 had the following effects on fund balance of the major and non-major 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.

	<u>General</u>	<u>Alternative School Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2003	(\$1,255)	\$36,083	\$40,211	\$75,039
GASB 34 Adjustments:				
Audit Adjustment to Beginning Balance			(34,103)	(34,103)
Change in Fund Structure – Expendable Trust			22,600	22,600
Change in Fund Structure - Enterprise Interpretation 6 Adjustments:			989	989
Compensated Absences Payable	14,548			14,548
Adjusted Fund Balance	<u>\$13,293</u>	<u>\$36,083</u>	<u>\$29,697</u>	79,073
GASB 34 Adjustments:				
Capital Assets				71,425
Long-Term Liabilities				<u>(147,489)</u>
Governmental Activities Net Assets at June 30, 2003				<u>\$3,009</u>

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Deficit Fund Balances

At June 30, 2004, the General Fund and Alternative School Fund had deficit balances in the amount of \$60,117 and \$14,501, respectively resulting from adjustments for accrued liabilities. These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The General fund provides transfers to cover deficit balances, however, this is done when cash is needed rather than when accruals occur.

4. BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the General Fund and the Alternative School Fund are 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 as follows:

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

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

	Net Change in Fund Balance	
	General	Alternative School
GAAP Basis	(\$73,410)	(\$50,584)
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals:		
Accrued FY 2003, Received In Cash FY 2004	75,175	13,543
Accrued FY 2004, Not Yet Received in Cash	(37,065)	(1,014)
Expenditure Accruals:		
Accrued FY 2003, Paid in Cash FY 2004	(338,002)	(32,024)
Accrued FY 2004, Not Yet Paid in Cash	382,596	40,065
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(83,559)	(12,327)
Budget Basis	(\$74,265)	(\$42,341)

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS 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 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 or deposit 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.

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS

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 the receipt of confirmation of transfer from the custodian.

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

At fiscal year end, the carrying amount of the Center's deposits was \$441,672 and the bank balance was \$492,338. Of the bank balance, \$216,694 was covered by federal depository insurance and \$275,644 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

6. STATE FUNDING

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

If additional funding is needed by the Center, and if a majority of the Boards of Education of the local 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 local school districts served by the Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables. All receivables are considered collectible within one year and in full. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

	Amount
Governmental Activities	
Accounts Receivable	\$17,068
General Fund	20,879
Total	\$37,947

8. CAPITAL ASSETS

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

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$42,000			\$42,000
Furniture, Fixtures, and Equipment	66,331	\$2,800		69,131
Total Depreciable Capital Assets	108,331	2,800		111,131
Less Accumulated Depreciation				
Buildings and Building Improvements	1,138	1,050		2,188
Furniture, Fixtures, and Equipment	35,768	4,888		40,656
Total Accumulated Depreciation	36,906	5,938		42,844
Depreciable Capital Assets, Net	\$71,425	(\$3,138)		\$68,287

The Center's buildings consist of a modular classroom that is used by the local school districts served by the Center.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$67
Support Services:	
Pupil	636
Instructional Staff	1,922
Administration	2,108
Fiscal	434
Central	771
Total Depreciation Expense	\$5,938

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Center contracted with Nationwide Insurance for general liability insurance. Property is also protected by Nationwide Insurance. Coverage's provided by Nationwide Insurance are as follows:

Building and Contents –	
Replacement cost (\$1,000 deductible)	\$221,100
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Errors and Omissions	1,000,000

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

B. Health Insurance

The Center participates in the Logan County Schools Benefit Plan Association (the Plan); a public entity shared risk pool consisting of three local school districts, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

C. Workers' Compensation

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). 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 school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the Center pays an enrollment fee to the plan to cover the costs of administering the program.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The Combined Plan offers features of both the DB Plan and the DC 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 Plan and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC Plan 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 Plan or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The Center's required contribution for pension obligations for the DBP for the fiscal years ending June 30, 2004, 2003, and 2002, were \$152,106, \$152,052, and \$119,475, respectively; 100 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The Center had no contributions under the Defined Contribution Plan or the Combined Plan.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension. SERS provides retirement and disability plan 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Center's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2004, 2003, and 2002 were \$49,853, \$53,691, and \$23,518, respectively; 100 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

11. POSTEMPLOYMENT BENEFITS

The District 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 funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal years 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$11,700 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, 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. Members retiring on or after August 1, 1989, with less than twenty-five fiscal 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.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

Employer contributions to fund health care benefits were 4.91 percent of covered payroll in fiscal year 2004 and 5.83 percent of covered payroll in fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The minimum pay was established at \$24,500 for fiscal year 2004 and \$14,500 for fiscal year 2003. For the Center, the amount to fund health care benefits, including the surcharge, was \$36,794, for fiscal year 2004.

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 annual health care expenses. 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.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal and sick leave components are derived from negotiated agreements and State laws. All twelve-month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment if negotiated with the Board of Education. Teachers do not earn vacation time. All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract year in which it is earned.

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 a maximum of 200 days for all personnel. Upon retirement, payment is made for 22.5 percent of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

B. Life Insurance

The Center provides life insurance and accidental death and dismemberment insurance to most employees through Anthem Blue Cross and Blue Shield.

13. LONG-TERM OBLIGATIONS

Changes in the Center's long-term obligations during fiscal year 2004 were as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Pension Obligation	\$11,688		\$11,688		
Compensated Absences	135,801	98,901	135,801	98,901	
Total	<u>\$147,489</u>	<u>\$98,901</u>	<u>\$147,489</u>	<u>\$98,901</u>	

Compensated absences will be paid from the General Fund.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. The 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 school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent upon the software package utilized. The governing board of WOCO consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO, as the residual interest in the net resources of the joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Sonny Ivey, who serves as the fiscal agent, at 129 East Court Street, 4th Floor, Sidney, Ohio 45365.

B. Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Joint Vocational School District, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311-9594.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) 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. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326.

D. Family and Children First Council

The Family and Children First Council provides services to multi-need youth in Logan County. Members of the council include but are not limited to the Logan County Board of Mental Retardation and Development Disabilities, Mental Health Board, Logan County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Logan County Head Start, Logan County Board of Health, Logan County Human Services, Logan County Educational Service Center and the Ohio Department of Youth Services. The operation of the council is controlled by an advisory committee, which consists of a representative from each agency. Funding comes mainly from the State of Ohio. Financial information can be obtained from Tammy Nicholl, Executive Director, 1973 St. Rt. 47 W, Bellefontaine, Ohio 43311.

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Logan County Education Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Logan County Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Eric Adelsberger, who serves as Financial Advisor, 2626 County Road 18, Bellefontaine, Ohio 43311.

15. INSURANCE POOLS

A. Logan County Schools Benefit Plan Association

The Center participates in the Logan County Schools Benefit Plan Association (the Plan); a public entity shared risk pool consisting of one local school district, one joint vocational school district and the Center. The Center pays monthly premiums to the Plan for employee medical benefits. The Plan is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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

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

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

**EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

17. 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. 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

There are currently no matters in litigation with the Center as defendant.

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Auditor of State Betty Montgomery

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

Educational Service Center
Logan County
121 South Opera Street
Bellefontaine, OH 43311

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Logan County, (the "Center"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 3, 2005, wherein we noted the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the Center's management in a separate letter dated March 3, 2005.

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

This report is intended solely for the information and use of the audit committee, management, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 3, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

EDUCATIONAL SERVICE CENTER

LOGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**