



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

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Fund Net Assets – Health Self-Insurance Internal Service Fund	14
Statement of Revenues, Expenses and Changes in Fund Net Assets – Health Self-Insurance Internal Service Fund	15
Statement of Cash Flows – Health Self-Insurance Internal Service Fund	16
Statement of Fiduciary Assets and Liabilities	17
Notes to the Basic Financial Statements	19
Schedule of Federal Awards Receipts and Expenditures	37
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	38
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	39
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	41
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	43
Schedule of Prior Audit Findings - <i>OMB Circular A-133 §.315(b)</i>	45

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, 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 March 31, 2006, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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 31, 2006

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the Guernsey/Monroe/Noble Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities decreased \$549,939.
- General revenues accounted for \$654,303 in revenue or 12 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,688,157 or 88 percent of total revenues of \$5,342,460.
- Total assets of governmental activities decreased \$356,590 due to a decrease in intergovernmental receivables.
- The Educational Service Center had \$5,892,399 in expenses related to governmental activities; \$4,688,157 of these expenses was offset by program specific charges for services and operating grants and contributions which were not adequate to provide for these activities.
- The Educational Service Center's major funds consist of the General Fund and the Morrison Scholarship Special Revenue Fund. The General Fund had \$4,638,840 in revenues and \$4,871,622 in expenditures. The General Fund's balance decreased \$232,782. The Morrison Scholarship Special Revenue Fund had \$3,413 in revenues and \$6,629 in expenditures. The Morrison Scholarship Special Revenue Fund's balance decreased \$3,216.

Using this Annual Financial Report

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

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for school districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are reported as governmental including instruction and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table I provides a summary of the Educational Service Center's net assets for 2005 compared to 2004.

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	<u>\$1,684,535</u>	<u>\$2,041,125</u>
Total Assets	<u>1,684,535</u>	<u>2,041,125</u>
Liabilities		
Long-Term Liabilities	150,113	133,343
Other Liabilities	<u>739,539</u>	<u>562,960</u>
Total Liabilities	<u>889,652</u>	<u>696,303</u>
Net Assets		
Restricted for Other Purposes	349,428	380,613
Unrestricted	<u>445,455</u>	<u>964,209</u>
Total Net Assets	<u><u>\$794,883</u></u>	<u><u>\$1,344,822</u></u>

Total assets decreased \$356,590. The majority of the decrease was due to a decrease in intergovernmental receivables of \$263,810. Intergovernmental receivable decreased due to a decrease in the amounts outstanding owed to the Educational Service Center at fiscal year end by the local school districts for program and services provided by the Educational Service Center during fiscal year 2005.

Total liabilities increased \$193,349. The majority of this increase was due to an increase in claims payable of \$88,053 based upon the third-part administrator's estimate of potential outstanding claims at June 30, 2005. Additionally, there were increases in accrued wages and benefits payable of \$39,204, and vacation benefits payable of \$25,253. The increase in accrued wages and benefits is a result of a step increase during fiscal year 2005.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, and compared to fiscal year 2004.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues		
Charges for Services	\$2,690,425	\$2,758,128
Operating Grants and Contributions	<u>1,997,732</u>	<u>2,078,192</u>
Total Program Revenues	<u>4,688,157</u>	<u>4,836,320</u>
General Revenue		
Grants and Entitlements	610,746	627,160
Investment Earnings	21,589	8,679
Miscellaneous	<u>21,968</u>	<u>12,842</u>
Total General Revenues	<u>654,303</u>	<u>648,681</u>
Total Revenues	<u>5,342,460</u>	<u>5,485,001</u>
Program Expenses		
Instruction		
Regular	264,418	188,890
Special	1,561,891	1,354,341
Vocational	0	37,991
Adult/Continuing	42,648	31,815
Support Services		
Pupil	1,577,854	1,514,304
Instructional Staff	1,469,971	1,332,052
Board of Education	25,203	26,420
Administration	624,433	552,796
Fiscal	217,549	195,201
Operation and Maintenance of Plant	11,296	7,592
Pupil Transportation	7,300	10,273
Central	7,001	15,248
Operation of Non-Instructional Services	8,053	4,519
Extracurricular Activities	<u>74,782</u>	<u>71,711</u>
Total Expenses	<u>5,892,399</u>	<u>5,343,153</u>
Change in Net Assets	(549,939)	141,848
Net Assets Beginning of Year	<u>1,344,822</u>	<u>1,202,974</u>
Net Assets End of Year	<u>\$794,883</u>	<u>\$1,344,822</u>

During fiscal year 2005, the Educational Service Center net assets decreased \$549,939. Total revenues decreased \$142,541. This decrease is based upon a reduction in intergovernmental revenues due to a reduction in CAFS monies. Expenses increased \$549,246. This increase is based upon an increase in the Health Self-Insurance Internal Service Fund operating expenses in the amount of \$295,586. The increase in instruction and support service expenses is due to a 2.5% base increase in salaries. In addition, the Educational Service Center's General Fund expenses increased \$178,568 due to an increase in special education services provided to the local, city and exempted village school districts.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted revenue.

**Table 3
Governmental Activities**

	2005 <u>Total Cost of Services</u>	2005 <u>Net Cost of Services</u>	2004 <u>Total Cost of Services</u>	2004 <u>Net Cost of Services</u>
Program Expenses				
Instruction:				
Regular	\$264,418	(\$101,566)	\$188,890	(\$5,642)
Special	1,561,891	590,029	1,354,341	910,562
Vocational	0	0	37,991	(14,753)
Adult/Continuing	42,648	(19,790)	31,815	(12,298)
Support Services:				
Pupil	1,577,854	(550,076)	1,514,304	(384,179)
Instructional Staff	1,469,971	(554,898)	1,332,052	(487,804)
Board of Education	25,203	(25,203)	26,420	(27,603)
Administration	624,433	(255,134)	552,796	(211,412)
Fiscal	217,549	(186,987)	195,201	(163,225)
Operation and Maintenance of Plant	11,296	(11,296)	7,592	(7,985)
Pupil Transportation	7,300	(7,300)	10,273	(10,804)
Central	7,001	(4,001)	15,248	(12,944)
Operation of Non-Instructional Services	8,053	(3,238)	4,519	(3,295)
Extracurricular Activities	74,782	(74,782)	71,711	(75,451)
Totals	<u>\$5,892,399</u>	<u>(\$1,204,242)</u>	<u>\$5,343,153</u>	<u>(\$506,833)</u>

Instruction programs comprise approximately 32 percent of total governmental program expenses, support services comprise approximately 67 percent of total governmental program expenses, and operation of non-instructional services and extracurricular activities combined comprise approximately 1 percent of total governmental program expenses. Of the instruction expenses, approximately 84 percent is for special instruction. Of the support services expenses, approximately 40 percent is for pupils, 37 percent for instructional staff, and 16 percent for administration.

The Educational Service Center's Major Funds

The Education Service Center has two major funds: the General Fund and the Morrison Scholarship Special Revenue Fund. The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$4,638,840 and expenditures of \$4,871,622. The Morrison Scholarship Special Revenue Fund had total revenues of \$3,413 and expenditures of \$6,629.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

Budgeting Highlights

Under Ohio law, Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2005, a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

Economic Factors

The Guernsey/Monroe/Noble Educational Service Center's net assets decreased by \$549,939, however, as the preceding information shows, the Educational Service Center relies heavily on the special education services it provides to its local, city and exempted village school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the school districts who contract for special education services with the Educational Service Center will continue to have an impact on the increase or decrease in revenues of the Educational Service Center.

Contacting the Educational Service Center's Financial Management

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,083,928
Cash and Cash Equivalents with Fiscal Agent	68,125
Accounts Receivable	4,202
Intergovernmental Receivable	277,632
Investments	200,000
Prepaid Items	<u>50,648</u>
 Total Assets	 <u>1,684,535</u>
Liabilities	
Accounts Payable	20,245
Accrued Wages and Benefits Payable	415,782
Intergovernmental Payable	97,532
Vacation Benefits Payable	105,498
Claims Payable	100,482
Long-Term Liabilities:	
Due Within One Year	22,738
Due in More Than One Year	<u>127,375</u>
 Total Liabilities	 <u>889,652</u>
Net Assets	
Restricted for Other Purposes	349,428
Unrestricted	<u>445,455</u>
 Total Net Assets	 <u>\$794,883</u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2005

	Program Revenues		Net Revenue (Expense) and Change in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$264,418	\$111,714	\$51,138	(\$101,566)
Special	1,561,891	813,878	1,338,042	590,029
Adult/Continuing	42,648	22,858	0	(19,790)
Support Services:				
Pupils	1,577,854	675,745	352,033	(550,076)
Instructional Staff	1,469,971	711,585	203,488	(554,898)
Board of Education	25,203	0	0	(25,203)
Administration	624,433	340,779	28,520	(255,134)
Fiscal	217,549	13,866	16,696	(186,987)
Operation and Maintenance of Plant	11,296	0	0	(11,296)
Pupil Transportation	7,300	0	0	(7,300)
Central	7,001	0	3,000	(4,001)
Operation of Non-Instructional Services	8,053	0	4,815	(3,238)
Extracurricular Activities	74,782	0	0	(74,782)
Total Governmental Activities	\$5,892,399	\$2,690,425	\$1,997,732	(1,204,242)
General Revenue				
Grants and Entitlements not				
Restricted to Specific Programs				610,746
Investment Earnings				21,589
Miscellaneous				21,968
Total General Revenues				654,303
Change in Net Assets				(549,939)
Net Assets Beginning of Year				1,344,822
Net Assets End of Year				\$794,883

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Balance Sheet
Governmental Funds
June 30, 2005

	General	Morrison Scholarship	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$959,727	\$62,311	\$61,890	\$1,083,928
Accounts Receivable	2,552	0	1,650	4,202
Interfund Receivable	9,266	0	0	9,266
Intergovernmental Receivable	166,735	0	110,897	277,632
Investments	0	200,000	0	200,000
Prepaid Items	46,818	0	3,830	50,648
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$1,185,098</u>	<u>\$262,311</u>	<u>\$178,267</u>	<u>\$1,625,676</u>
Liabilities				
Accounts Payable	\$6,256	\$4,481	\$9,508	\$20,245
Accrued Wages and Benefits Payable	372,946	0	42,836	415,782
Interfund Payable	0	0	9,266	9,266
Intergovernmental Payable	73,060	0	24,472	97,532
Deferred Revenue	92,870	0	10,669	103,539
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>545,132</u>	<u>4,481</u>	<u>96,751</u>	<u>646,364</u>
Fund Balances				
Reserved for Encumbrances	3,069	0	10,339	13,408
Unreserved, Undesignated Reported in:				
General Fund	636,897	0	0	636,897
Special Revenue Funds	0	257,830	71,177	329,007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>639,966</u>	<u>257,830</u>	<u>81,516</u>	<u>979,312</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$1,185,098</u>	<u>\$262,311</u>	<u>\$178,267</u>	

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

Long-term assets (grants and contract services) are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	103,539
Vacation benefits payable is recognized for earned vacation benefits that are to be used within one year and therefore are not reported in the funds.	(105,498)
Compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	(150,113)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>(32,357)</u>
Net Assets of Governmental Activities	<u>\$794,883</u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Morrison Scholarship	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$1,973,676	\$0	\$729,080	\$2,702,756
Interest	20,377	3,413	0	23,790
Contract Services	2,636,632	0	39,890	2,676,522
Gifts and Donations	395	0	58,316	58,711
Miscellaneous	7,760	0	0	7,760
Total Revenues	4,638,840	3,413	827,286	5,469,539
Expenditures				
Current:				
Instruction:				
Regular	164,024	0	93,237	257,261
Special	1,403,766	0	89,513	1,493,279
Adult/Continuing	39,015	0	0	39,015
Support Services:				
Pupils	1,142,343	0	395,322	1,537,665
Instructional Staff	1,228,979	0	185,448	1,414,427
Board of Education	25,203	0	0	25,203
Administration	589,146	0	22,907	612,053
Fiscal	185,210	0	30,366	215,576
Operation and Maintenance of Plant	11,296	0	0	11,296
Pupil Transportation	7,300	0	0	7,300
Central	3,041	0	3,960	7,001
Operation of Non-Instructional Services	0	6,629	1,424	8,053
Extracurricular Activities	72,299	0	0	72,299
Total Expenditures	4,871,622	6,629	822,177	5,700,428
Net Change in Fund Balances	(232,782)	(3,216)	5,109	(230,889)
Fund Balances Beginning of Year (Restated)	872,748	261,046	76,407	1,210,201
Fund Balances End of Year	<u>\$639,966</u>	<u>\$257,830</u>	<u>\$81,516</u>	<u>\$979,312</u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds			(\$230,889)
Amounts reported for governmental activities in the statement of activities are different because:			
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:			
	Contract Services	13,903	
	Grants	<u>(156,402)</u>	(142,499)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:			
	Pension Obligation	24,275	
	Vacation Benefits	(25,253)	
	Compensated Absences	<u>(16,770)</u>	(17,748)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. The net change of the internal service fund is reported with governmental activities.			<u>(158,803)</u>
Change in Net Assets of Governmental Activities			<u><u>(\$549,939)</u></u>
See accompanying notes to the basic financial statements			

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Fund Net Assets

Health Self-Insurance Internal Service Fund

June 30, 2005

	Governmental Activity
	<u>Internal Service Fund</u>
Current Assets	
Cash and Cash Equivalents with Fiscal Agent	<u>\$68,125</u>
Total Assets	<u>68,125</u>
Current Liabilities	
Claims Payable	<u>100,482</u>
Total Liabilities	<u>100,482</u>
Net Assets	
Unrestricted (Deficit)	<u><u>(\$32,357)</u></u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Revenues, Expenses
and Changes in Fund Net Assets
Health Self-Insurance Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activity Internal Service Fund</u>
Operating Revenues	
Charges for Services	\$559,045
Other Revenues	<u>14,208</u>
Total Operating Revenues	<u>573,253</u>
Operating Expenses	
Purchased Services	175,643
Claims	<u>557,625</u>
Total Operating Expenses	<u>733,268</u>
Operating Loss	(160,015)
Non-Operating Revenues	
Interest	<u>1,212</u>
Change in Net Assets	(158,803)
Net Assets Beginning of Year	<u>126,446</u>
Net Assets (Deficit) End of Year	<u><u>(\$32,357)</u></u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Resource Center, Ohio

Statement of Cash Flows

Health Self-Insurance Internal Service Fund

For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities Internal Service Fund</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$559,045
Other Cash Receipts	14,208
Cash Payments for Goods and Services	(175,643)
Cash Payments for Claims	<u>(469,572)</u>
Net Cash Used for Operating Activities	(71,962)
Cash Flows from Investing Activities	
Interest on Investments	<u>1,212</u>
Net Decrease in Cash and Cash Equivalents	(70,750)
Cash and Cash Equivalents Beginning of Year	<u>138,875</u>
Cash and Cash Equivalents End of Year	<u><u>\$68,125</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$160,015)
Increase in Claims Payable	<u>88,053</u>
Net Cash Used for Operating Activities	<u><u>(\$71,962)</u></u>

See accompanying notes to the basic financial statements

Guernsey/Monroe/Noble Educational Service Center, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$795</u>
Total Assets	<u><u>\$795</u></u>
Liabilities	
Undistributed Monies	<u>\$795</u>
Total Liabilities	<u><u>\$795</u></u>

See accompanying notes to the basic financial statements

This page intentionally left blank.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

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

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

Reporting Entity

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

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

The Educational Service Center is associated with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the East Central Ohio Special Education Regional Resource Center (ECO-SERRC), and the Coalition of Rural and Appalachian Schools (CORAS), which are defined as jointly governed organizations; the Ohio School Boards Association Workers’ Compensation Group Rating Plan and the Ohio School Plan, which are defined as group insurance purchasing pools; and the Ohio Mid-Eastern Regional Educational Service Agency (OMEA-RESA) Self-Insurance Program, which is defined as a claims servicing pool. Additional information concerning these organizations is presented in Notes 13, 14, and 15 to the basic financial statements.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District does not have any business-type funds.

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

Fund Financial Statements

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

B. Fund Accounting

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

Governmental Funds

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

General Fund - The General Fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Proprietary Fund Type

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

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

Fiduciary Fund

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Educational Service Center finances and meets the cash flow needs of its proprietary activity.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Under the modified accrual basis, interest, grants and contract services are considered to be both measurable and available at year end.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Data

No budgetary information is presented because the Board did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are no longer required to prepare a budget.

F. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to a certificate of deposit.

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 2005 amounted to \$20,377, which includes \$1,128 assigned from other Educational Service Center funds.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Investments with an initial maturity of more than three months that are not purchased from the pool are presented on the financial statements as "Investments".

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

I. Capital Assets

General capital assets generally result from expenditures in the governmental funds.

The Educational Service Center does not have any assets that meet the criteria for inclusion as a capital asset. The Educational Service Center does not capitalize buildings because they are provided office space through the Guernsey County Commissioners.

J. Compensated Absences

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

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

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

L. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include scholarship trusts and state and federal grants restricted to expenditures for specified purposes. The government-wide statement of net assets reports \$349,428 of restricted net assets, of which none are restricted by enabling legislation.

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

N. Interfund Balances/ Interfund Transactions

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

O. Operating Revenues and Expenses

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

P. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

For the fiscal year ended June 30, 2005, the Educational Service Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers", and early implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 5 "Deposits and Investments" for required disclosures.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation of this technical bulletin had no material effect on the Educational Service Center's financial statements for fiscal year ended June 30, 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

In prior years, the Miscellaneous Federal Grants Special Revenue Fund had been reported as a major fund. During fiscal year 2005, the Miscellaneous Federal Grants Special Revenue Fund will be presented as a nonmajor fund. The prior year fund balance is presented as a reconciling item in the table below for comparability between years.

	General	Morrison Scholarship	Miscellaneous Federal Grants	Other Governmental	Total Governmental Funds
Fund Balances, June 30, 2004	\$872,748	\$261,046	\$17,484	\$58,923	\$1,210,201
Classroom Facilities Fund Nonmajor at June 30, 2005	0	0	(17,484)	17,484	0
Restated Fund Balances, June 30, 2004	\$872,748	\$261,046	\$0	\$76,407	\$1,210,201

NOTE 4 - ACCOUNTABILITY

The Health Self-Insurance Internal Service Fund and the Miscellaneous State Grants Special Revenue Fund had deficit net asset balances of \$32,357 and \$1,880, respectively, at June 30, 2005.

The deficit net asset balances in the Health Self-Insurance Internal Service Fund and the Miscellaneous State Grants Special Revenue Fund are the result of the recognition of payables in accordance with generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

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

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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.

Interim monies held by the Educational Service Center can 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 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;
4. Bond and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and,
8. Commercial paper and bankers' acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

At June 30, 2005, the Educational Service Center's internal service fund had a balance of \$68,125 with OME-RESA, a jointly governed organization (See Note 13). The balance is held by the claims administrator in a pooled account which is representative of numerous entities and therefore cannot be included in the risk disclosures reported by the Educational Service Center. Disclosures for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, Jefferson County ESC, Steubenville, Ohio 43952.

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party. At year end, \$1,167,239 of the Educational Service Center's bank balance of \$1,367,239 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value shall be at least one hundred five percent of the deposits being secured.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005, consisted of contract services and grants. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
WIC Grant	\$1,834
Alternative School Grant	6,293
Homeless Grant	16,554
Preschool Grant	13,954
Safe and Drug Free Grant	60,485
Excess Costs	63,085
CAFS	103,650
Virtual Learning Academy Services	8,048
Fingerprinting	1,350
Transitional Program Reimbursements	2,379
Total Intergovernmental Receivable	<u><u>\$277,632</u></u>

NOTE 7 - STATE AND LOCAL SCHOOL DISTRICT FUNDING

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

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

NOTE 8 - RISK MANAGEMENT

A. Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 14)

During fiscal year 2005, the Educational Service Center purchased the following coverage:

<u>Ohio School Plan</u>		
Fleet Insurance:		
Liability	\$1,000,000	any one accident
Liability Coverages:		
General Liability Aggregate Limit	\$3,000,000	
Employee Liability Coverage Aggregate Limit	\$3,000,000	
Employers' Liability Each Accident	\$1,000,000	
Errors and Omissions Aggregate Limit	\$2,000,000	\$2,500 deductible
Employment Practices Injury Aggregate Limit	\$2,000,000	\$2,500 deductible
<u>Westfield Insurance Company</u>		
Business Personal Property	\$20,000-\$150,000	\$500 deductible

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

B. Workers' Compensation Group Rating Plan

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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

Medical/surgical, dental, vision, and prescription drug insurance is offered through a self-insurance internal service fund. The Educational Service Center pays for 83.5% of family coverage and 88% of single coverage in premiums for this insurance. The Educational Service Center is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$100,482 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past two fiscal years are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2004	\$14,817	\$303,577	\$305,965	\$12,429
2005	12,429	557,625	469,572	100,482

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$131,848, \$101,516, and \$192,647, respectively; 93 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$9,217 represents the unpaid contribution for fiscal year 2005.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$360,746, \$390,395, and \$460,467, respectively; 89 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$6,396 made by the Educational Service Center and \$18,096 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. This liability would be 6.2 percent of wages paid. As of June 30, 2005, none of the Educational Service Center's employees have elected Social Security.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Educational Service 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.

STRS retirees who participated in the DB or Combined plans and their 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. All 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, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$27,750 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$59,860.

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. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from board policies and State laws. Eligible classified employees earn ten to twenty days of vacation per year, depending upon length of service.

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

Administrators earn twenty days of vacation per year. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances are to be used by the employees in the next fiscal year following the calendar year earned.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. All employees can accumulate sick leave days up to a maximum of 240 days. Upon retirement, payment is made for twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 45 days.

B. Other Employee Benefits

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

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 2005 were as follows:

	<u>Outstanding 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding 06/30/05</u>	<u>Amount Due Within One Year</u>
Governmental Activities					
Compensated Absences	<u>\$133,343</u>	<u>\$16,770</u>	<u>\$0</u>	<u>\$150,113</u>	<u>\$22,738</u>

Compensated absences will be paid from the General Fund.

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

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

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. OME-RESA is governed by a governing board which is selected by the member districts. OME-RESA possesses its own budgeting authority. The Educational Service Center's payment for computer services to OME-RESA in fiscal year 2005 was \$18,098. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

ECO-SERRC is a special education regional resource center which selects its own board, adopts its own budget, and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO-SERRC is governed by a board composed of superintendents of member school districts in east central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

to its representation on the Board. There is no financial commitment made by the districts involved in ECO-SERRC. ECO-SERRC is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for ECO-SERRC. Financial information can be obtained by contacting Julie A Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Education Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

C. Coalition of Rural and Appalachian Schools (CORAS)

CORAS is a jointly governed organization including 134 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. CORAS is operated by a board which is composed of seventeen members. The board members consist of one member elected and one member appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from the Ohio University College of Education. CORAS provides various in-service functions for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. CORAS is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for CORAS. During fiscal year 2005, the Educational Service Center made no contributions to CORAS.

NOTE 14 - INSURANCE PURCHASING POOLS

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

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee for fiscal year 2005 was \$2,372.

B. Ohio School Plan (OSP)

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

Guernsey/Monroe/Noble Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 15 - CLAIMS SERVICING POOL

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

NOTE 16 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

B. Litigation

The Educational Service Center is currently party to legal proceedings. The Educational Service Center management is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the Educational Service Center.

NOTE 17 – INTERFUND ACTIVITY

At June 30, 2005, the General Fund (major fund) made advances to the Preschool Grant and Safe and Drug Free-Alternative School Grant Special Revenue Funds (Other Governmental Funds) in the amounts of \$2,527 and \$6,739 until the remaining grant monies are received, to subsidize negative cash balances.

NOTE 18 – SUBSEQUENT EVENT

Effective January 1, 2006, the name of the Guernsey/Monroe/Noble Educational Service Center will change to the Ohio Valley Educational Service Center.

This page intentionally left blank.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Pass-through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed-Through State Department of Education:</i>				
Special Education, Preschool Grants	123281-PG-S1-05	84.173	\$62,767	\$65,296
Safe & Drug Free Schools and Communities - National Programs	123281-T4-S1-03	84.184C	(405)	
	123281-T4-S1-04-P	84.184C	2,964	2,989
	123281-T4-S1-04	84.184C	1,978	3,010
	123281-T4-S1-04	84.184C	<u>1,250</u>	<u>1,250</u>
Total Safe & Drug Free Schools and Communities - National Programs			5,787	7,249
Education for Homeless Children and Youth	123281-HC-S1-00	84.196	(302)	
	123281-HC-S1-04-P	84.196	2,400	2,793
	123281-HC-S1-04	84.196	2,344	2,498
	123281-HC-S1-05	84.196	33,898	33,932
	123281-HC-SP-04	84.196	6,450	10,050
	123281-HC-SP-04	84.196	<u>34,899</u>	<u>34,800</u>
Total Education for Homeless Children and Youth			79,689	84,073
<i>Direct Program</i>				
Fund for the Improvement of Education	Q215E030215	84.215E	<u>365,300</u>	<u>375,985</u>
Total U.S. Department of Education			513,543	532,603
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Health Insurance Program	N/A	93.757	26,253	26,253
Medical Assistance Program - Community Alternative Funding System - Title XIX	N/A	93.778	<u>209,917</u>	<u>209,917</u>
Total U.S. Department of Health and Human Services			<u>236,170</u>	<u>236,170</u>
Total Federal Awards Receipts and Expenditures			<u>\$749,713</u>	<u>\$768,773</u>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - REFUNDS

During fiscal year 2005, the Educational Service Center refunded grant award receipts to the Ohio Department of Education (ODE) after the expiration of the period of availability. The unobligated monies at the end of the grant period were refunded as follows:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Refunded Amount</u>
84.184C	123281-T4-S1-03	\$ 405
84.196	123281-HC-S1-00	302
84.196	123281-HC-SP-04	1,950
Total		<u>\$2,657</u>



**Auditor of State
Betty Montgomery**

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated March 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Educational Service Center's management dated March 31, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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 31, 2006



Auditor of State Betty Montgomery

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

Guernsey/Monroe/Noble Educational Service Center
Guernsey County
749 Wheeling Avenue
Cambridge, Ohio 43725

To the Board of Education:

Compliance

We have audited the compliance of the Guernsey/Monroe/Noble Educational Service Center, Guernsey County, Ohio (the Educational Service Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the Educational Service Center's major federal programs. The Educational Service Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the Educational Service Center's compliance based on our audit.

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

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

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

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

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

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 31, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Fund for the Improvement of Education, CFDA #84.215E Medical Assistance Program – Community Alternative Funding System – Title XIX, CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <u>Explain:</u>
2004-001	Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS).	Yes	Fully corrected.
2004-002	Ohio Admin. Code Section 5123:2-15-21 (C)(1) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible Registered Nurse (RN) after a nursing assessment by an RN.	Yes	Fully corrected.
2004-003	Ohio Admin. Code Section 5123:2-15 provides requirements for funding under the Community Alternative Funding System (CAFS). The Educational Service Center improperly billed units-of-service, resulting in an overpayment and federal questioned costs of \$841 with likely errors in the range of \$190,000 to \$210,000.	Yes	Fully corrected.
2004-004	Ohio Admin. Code Section 5123:2-15-21 (C)(1) provides that certain nursing services may be delegated to other trained, unlicensed personnel by the responsible Registered Nurse (RN) after a nursing assessment by an RN. The Educational Service Center improperly billed delegated nursing services as regular nursing, resulting in an overpayment and federal questioned costs of \$21,734 and likely errors in the range of \$190,000 to \$210,000.	Yes	Fully corrected.
2004-005	Statement of Auditing Standard (SAS) No. 78, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Statement of Auditing Standard (SAS) No. 70 refers to service organizations that process transactions for another organization as third party administrators. The Educational Service Center did not establish internal control procedures to assure reliable financial reporting nor did the Educational Service Center's third party administrator have a SAS 70 audit performed.	Yes	Fully corrected.



**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

GUERNSEY/MONROE/NOBLE EDUCATIONAL SERVICE CENTER

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 16, 2006**