

**MEDINA COUNTY
EDUCATIONAL SERVICE CENTER**

Medina County, Ohio

Regular Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAS, INC.
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**Auditor of State
Betty Montgomery**

Board of Education
Medina County Educational Service Center
Medina, Ohio

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 1, 2006

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Medina County Educational Service Center
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For the Fiscal Year Ended June 30, 2004

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Medina County Educational Service Center
124 West Washington Street
Medina, Ohio 44256

We have audited the accompanying general purpose financial statements of the Medina County Educational Service Center, Medina County, Ohio, (the Center) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

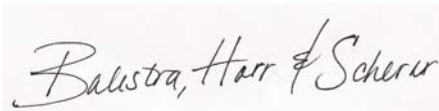
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Center as of June 30, 2004, and the respective changes in financial position thereof, 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 November 22, 2005, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

Balestra, Harr & Scherer, CPAs, Inc.

November 22, 2005

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

The discussion and analysis of Medina Educational Service Center's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. 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 financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key Financial Highlights for 2004 are as follows:

- A presentation of financial information under Governmental Accounting Standards Board (GASB) Statement Number 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Some analysis with prior year data cannot be generated by definition since this is the first year of presentation.
- In total, net assets decreased by \$29,580.
- Revenues for governmental activities totaled \$3,442,917 in 2004. Of this total, 37 percent consisted of General revenues while Program revenues accounted for the balance of 63 percent.
- Program expenses totaled \$3,472,497. Instructional expenses made up 10 percent of this total while support services accounted for 89 percent. Extracurricular activities rounded out the remaining 1 percent.

Using this Annual Financial Report

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

The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain 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. In the case of Medina Educational Service Center, the general fund by far is the most significant fund.

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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.

Effective with this fiscal year, the *Statement of Net Assets* and the *Statement of Activities* are represented by one type of activity; Governmental Activities. The Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 7. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude 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 fund is the general fund.

Governmental Funds

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

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

The Educational Service Center as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

Table 1
Net Assets

| | <i>Governmental Activities</i> | |
|---|--------------------------------|------------------|
| | <i>2004</i> | <i>2003</i> |
| Assets | | |
| Current and Other Assets | \$ 1,020,151 | \$ 1,010,921 |
| Capital Assets, Net | 93,437 | 106,009 |
| <i>Total Assets</i> | 1,113,588 | 1,116,929 |
| Liabilities | | |
| Current and Other Liabilities | 95,463 | 66,751 |
| Long-Term Liabilities | | |
| Due Within One Year | 57,701 | 81,385 |
| Due in More than One Year | 75,851 | 63,279 |
| <i>Total Liabilities</i> | 229,015 | 211,395 |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 93,437 | 106,009 |
| Restricted for Other Purposes | 25,938 | 29,641 |
| Unrestricted | 765,198 | 769,884 |
| <i>Total Net Assets</i> | \$884,573 | \$905,534 |

Total assets decreased by \$3,341. Current and Other Assets increased by \$9,230. Cash and cash equivalents increased due to increased collections from tuition and fees and customer service charges. Liabilities increased by \$17,620 mostly as a result of increased accrued wages.

By comparing assets and liabilities, one can see the overall position of the Educational Service Center remained stable as evidenced by the minimal change in net assets.

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

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

| | <i>Governmental Activities 2004</i> |
|--|---|
| Revenues | |
| Program Revenues: | |
| Charges for Services | \$2,068,956 |
| Operating Grants and Contributions | 97,203 |
| Total Program Revenues | 2,166,159 |
| General Revenues: | |
| Grants and Entitlements | 1,245,411 |
| Investments | 31,347 |
| Total General Revenues | 1,276,758 |
| Total Revenues | 3,442,917 |
| Program Expenses | |
| Instruction | |
| Regular | 109,244 |
| Special | 116,906 |
| Adult/Continuing | 109,398 |
| Other | 6,671 |
| Support Services: | |
| Pupil | 18,296 |
| Instructional Staff | 2,156,816 |
| Board of Education | 33,906 |
| Administration | 194,689 |
| Fiscal | 199,827 |
| Business | 269,996 |
| Operation and Maintenance | 144 |
| Pupil Transportation | 16,111 |
| Central | 193,656 |
| Extracurricular Activities | 46,837 |
| Total Program Expenses | 3,472,497 |
| Decrease in Net Assets | \$ (29,580) |
| Net Assets Beginning of Year - Restated | \$914,153 |
| Net Assets End of Year | \$884,573 |

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

Governmental Activities

A review of Table 2 reinforces the concept of sound fiscal management in the government sector generating an increase in excess of revenues over expenditures. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same. Prior year comparison is not available due to the initial year implementation of this accounting presentation.

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The \$1,306,338, Net Cost of Services 2004, tells the reader that these services are not self-supporting, but are supported by unrestricted State entitlements.

| | <i>Total Cost of Services 2004</i> | <i>Net Cost of Services 2004</i> |
|---|--|--|
| Instruction: | | |
| Regular | \$109,244 | \$2,541 |
| Special | 116,906 | (2,278) |
| Adult/Continuing | 109,398 | (4,061) |
| Other | 6,671 | (3,746) |
| Support Services: | | |
| Pupil | 18,296 | 5,077 |
| Instructional Staff | 2,156,816 | (831,259) |
| Board of Education | 33,906 | (33,906) |
| Administration | 194,689 | (193,139) |
| Fiscal | 199,827 | (199,827) |
| Business | 269,996 | (23,358) |
| Operation and Maintenance of Plant | 144 | (144) |
| Pupil Transportation | 16,111 | (16,111) |
| Central | 193,656 | (6,023) |
| Operation of Non-Instructional Services | 46,837 | (104) |
| <i>Total</i> | <i>\$3,472,497</i> | <i>(\$1,306,338)</i> |

The Educational Service Center's Funds

Information regarding the Educational Service Center's major fund can be found on page 23 & 24 of the notes to the basic financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues totaled \$3,442,917 and expenditures totaled \$3,457,961. The General Fund balance decreased \$13,946 primarily due to increased accrued wages and reduced prepaid items.

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

Capital Assets

At the end of fiscal 2004, the Educational Service Center had \$93,437 invested in furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal 2004 values compared to 2003.

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

| | <i>Governmental Activities</i> | |
|--------------------------|--------------------------------|------------------|
| | <i>2004</i> | <i>2003</i> |
| Furniture and Fixtures | \$488,281 | \$463,203 |
| Accumulated Depreciation | (394,844) | (357,194) |
| <i>Totals</i> | <i>\$93,437</i> | <i>\$106,009</i> |

All capital assets are reported at historical cost. For more information on capital assets refer to Note 8 of the basic financial statements.

Current Financial Related Activities

Medina County Educational Service Center is financially sound. The Board and administration closely monitor its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and 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 Dan Clark, Treasurer, at Medina County Educational Service Center, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

Medina County Educational Service Center

Statement of Net Assets

June 30, 2004

| | <i>Governmental Activities</i> |
|---|---|
| <i>Assets</i> | |
| Equity in Pooled Cash and Cash Equivalents | \$990,862 |
| Accrued Interest Receivable | 9,955 |
| Intergovernmental Receivable | 18,412 |
| Prepaid Items | 922 |
| Noncurrent Assets: | |
| Depreciable Capital Assets, net | 93,437 |
| <i>Total Assets</i> | 1,113,588 |
| <i>Liabilities</i> | |
| Accounts Payable | 6,581 |
| Accrued Wages and Benefits | 60,390 |
| Intergovernmental Payable | 28,492 |
| Long-Term Liabilities: | |
| Due Within One Year | 57,701 |
| Due in More Than One Year | 75,851 |
| <i>Total Liabilities</i> | 229,015 |
| <i>Net Assets</i> | |
| Invested in Capital Assets, Net of Related Debt | 93,437 |
| Restricted for Other Purposes | 25,938 |
| Unrestricted | 765,198 |
| <i>Total Net Assets</i> | \$884,573 |

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2004

| | <i>Program Revenues</i> | | |
|---------------------------------------|---|---|---|
| <i>Expenses</i> | <i>Charges for Services and Sales</i> | <i>Operating Grants and Contributions</i> | <i>Net(Expense) Revenue and Changes in Net Assets</i> |
| <i>Governmental Activities</i> | | | |
| Instruction: | | | |
| Regular | \$109,244 | \$111,785 | \$0 |
| Special | 116,906 | 114,628 | 0 |
| Adult/Continuing | 109,398 | 13,959 | 91,378 |
| Other | 6,671 | 0 | 2,925 |
| Support Services: | | | |
| Pupils | 18,296 | 23,373 | 0 |
| Instructional Staff | 2,156,816 | 1,322,657 | 2,900 |
| Board of Education | 33,906 | 0 | 0 |
| Administration | 194,689 | 1,550 | 0 |
| Fiscal | 199,827 | 0 | 0 |
| Business | 269,996 | 246,638 | 0 |
| Operation and Maintenance of Plant | 144 | 0 | 0 |
| Pupil Transportation | 16,111 | 0 | 0 |
| Central | 193,656 | 187,633 | 0 |
| Extracurricular Activities | 46,837 | 46,733 | 0 |
| <i>Totals</i> | \$3,472,497 | \$2,068,956 | \$97,203 |
| <i>General Revenues</i> | | | |
| | | | 1,245,411 |
| | | | 31,347 |
| | | | 1,276,758 |
| | | | (29,580) |
| | | | 914,153 |
| | | | \$884,573 |

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2004*

| | General Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|---|---|
| Assets | | | |
| Current Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$957,201 | \$33,661 | \$990,862 |
| Accrued Interest Receivable | 9,955 | 0 | 9,955 |
| Intergovernmental Receivable | 18,202 | 210 | 18,412 |
| Prepaid Items | 922 | 0 | 922 |
| | | | |
| <i>Total Assets</i> | <u>\$986,280</u> | <u>\$33,871</u> | <u>\$1,020,151</u> |
| | | | |
| Liabilities | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$5,976 | \$605 | \$6,581 |
| Accrued Wages and Benefits | 60,390 | 0 | 60,390 |
| Intergovernmental Payable | 11,638 | 0 | 11,638 |
| | | | |
| <i>Total Liabilities</i> | <u>78,004</u> | <u>605</u> | <u>78,609</u> |
| | | | |
| Equity: | | | |
| Fund Balances | | | |
| Reserved: | | | |
| Reserved for Encumbrances | 31,272 | 13,413 | 44,685 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 877,004 | 0 | 877,004 |
| Special Revenue Funds | 0 | 19,853 | 19,853 |
| | | | |
| <i>Total Fund Balances</i> | <u>908,276</u> | <u>33,266</u> | <u>941,542</u> |
| | | | |
| <i>Total Liabilities and Fund Balances</i> | <u>\$986,280</u> | <u>\$33,871</u> | <u>\$1,020,151</u> |

See Accompanying Notes to the Basic Financial Statements

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

| | |
|--|-----------------------------|
| <i>Total Governmental Fund Balances</i> | \$941,542 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 93,437 |
| Intergovernmental payable includes contractually required pension obligations not expected to be paid with expendable available financial resources and therefore not reported in the funds. | (16,854) |
| Long-term compensated absences liabilities are not due and payable in the current period and therefore are not reported in the funds. | <u>(133,552)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$884,573</u></u> |

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

| | <i>General Fund</i> | <i>Other Governmental Funds</i> | <i>Total Governmental Funds</i> |
|--|-------------------------|---|---|
| Revenues | | | |
| Intergovernmental | \$1,620,788 | \$97,203 | \$1,717,991 |
| Interest | 31,347 | 0 | 31,347 |
| Gifts and Donations | 0 | 0 | 0 |
| Customer Sales and Services | 1,659,620 | 33,959 | 1,693,579 |
| | <u>3,311,755</u> | <u>131,162</u> | <u>3,442,917</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 108,459 | 0 | 108,459 |
| Special | 112,762 | 0 | 112,762 |
| Adult/Continuing | 0 | 107,572 | 107,572 |
| Other | 0 | 6,671 | 6,671 |
| Support Services: | | | |
| Pupils | 25,568 | 0 | 25,568 |
| Instructional Staff | 2,095,308 | 18,017 | 2,113,325 |
| Board of Education | 33,665 | 0 | 33,665 |
| Administration | 225,686 | 0 | 225,686 |
| Fiscal | 192,744 | 0 | 192,744 |
| Business | 279,233 | 0 | 279,233 |
| Operation and Maintenance of Plant | 144 | 0 | 144 |
| Pupil Transportation | 16,111 | 0 | 16,111 |
| Central | 189,184 | 0 | 189,184 |
| Extracurricular Activities | 46,837 | 0 | 46,837 |
| | <u>3,325,701</u> | <u>132,260</u> | <u>3,457,961</u> |
| <i>Total Expenditures</i> | <u>3,325,701</u> | <u>132,260</u> | <u>3,457,961</u> |
| <i>Excess of Revenues Under Expenditures</i> | (13,946) | (1,098) | (15,044) |
| <i>Fund Balances Beginning of Year - Restated (See Note 3)</i> | <u>922,222</u> | <u>34,364</u> | <u>956,586</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$908,276</u></u> | <u><u>\$33,266</u></u> | <u><u>\$941,542</u></u> |

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (15,044)

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

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts are:

| | | |
|----------------------------|-----------------|----------|
| Capital Assets - Additions | 34,830 | |
| Capital Assets - Disposals | (9,752) | |
| Depreciation | <u>(47,402)</u> | |
| Total | | (12,572) |

Some expenses reported in the statement of activities, such as compensated absences
and pension obligations, do not require the use of current financial resources and
therefore are not reported as expenditures in the governmental funds.
in governmental funds.

| | | |
|-----------------------|---------------|----------------|
| Pension Contributions | (13,076) | |
| Compensated Absences | <u>11,112</u> | |
| Total | | <u>(1,964)</u> |

Changes in Net Assets of Governmental Activities (29,580)

Medina County Educational Service Center

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

| | <u><i>Private Purpose Trust</i></u> |
|--|---|
| | <u><i>Special Trust</i></u> |
| <i>Assets</i> | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$105,604</u> |
| <i>Total Assets</i> | <u>105,604</u> |
| <i>Net Assets</i> | |
| Held in Trust for Scholarships | <u>105,604</u> |
| <i>Total Net Assets</i> | <u><u>\$105,604</u></u> |

See Accompanying Notes to the Basic Financial Statements

Medina County Educational Service Center
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004

| | <i>Private Purpose Trust</i> |
|---|----------------------------------|
| <i>Additions</i> | |
| Gifts and Contributions | \$1,105 |
| Interest | 4,839 |
| <i>Total Additions</i> | 5,944 |
| <i>Change in Net Assets</i> | 5,944 |
| <i>Net Assets Beginning of Year</i> | 99,660 |
| <i>Net Assets End of Year</i> | \$105,604 |

See Accompanying Notes to the Basic Financial Statements

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

Note 1 - Description of the Educational Service Center

The Medina County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 34 noncertificated, 26 certificated teaching personnel, and 3 administrators who provide services to 29,460 students through the school districts in Medina County.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate for the Educational Service Center. For the Educational Service Center, this includes all the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Educational Service Center.

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 if 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. The Educational Service Center has no component units.

The Educational Service Center is associated with the Lake Erie Educational Computer Association (LEECA) which is defined as a Jointly Governed Organization, the Sheakley Uniservice, Inc's Worker's Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the general purpose financial statements.

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Educational Service Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. Explanation of the Educational Service Center's more significant policies follow.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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 statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the 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 statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically 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 is the Educational Service Center's major governmental fund:

General Fund The general fund is the general 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.

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. 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. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no agency funds

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

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

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 collectible within the current fiscal year or 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.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal 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, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, customer services and charges for services, rentals and fees.

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Expenditures/Expenses 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 governmental funds.

E. Budgetary Data

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

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

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

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2004, investments were limited to U. S. Federal Government Agencies, Certificates of Deposit, and STAR Ohio, the State Treasurer's Investment Pool. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

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

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

The Educational Service Center invested funds in the State Treasury Asset Reserve (“STAR Ohio”) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2004, the general fund received interest earned in the amount of \$31,347 and the private purpose trust received interest earned in the amount of \$4,839.

G. Prepaid Items

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

H. Capital Assets

The Educational Service Center’s only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District’s capitalization threshold is \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives of five to ten years for furniture and fixtures and five year for vehicles.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Compensated Absences (continued)

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, special termination benefits 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 normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due

K. Net Assets

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

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.

L. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

M. 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.

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

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

A. Changes in Accounting Principles

For fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board Statement (GASB) No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”; GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 41, “Budgetary Comparison Schedules – Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At June 30, 2004, there was no effect on fund balance as a result of implementing GASB statement 41.

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

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

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

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

B. Restatement of Fund Balance

The new standards for reporting fund obligations for compensated absences in Interpretation 6 caused changes in previously reported fund balances. The transition from governmental fund balance to net assets of the governmental activities is also presented.

| | <u>General</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|
| <i>Fund Balance June 30, 2003</i> | \$889,935 | \$33,342 | \$923,277 |
| Interpretation 6 Adjustments | 23,668 | 1,022 | 24,690 |
| Prepaid Items | 8,619 | 0 | 8,619 |
| <i>Restated Fund Balances, June 30, 2003</i> | <u>\$922,222</u> | <u>\$34,364</u> | 956,586 |
| <i>GASB 34 Adjustments:</i> | | | |
| Capital Assets | | | 106,009 |
| Long-Term Liabilities: | | | |
| Pension Obligations | | | (3,778) |
| Compensated Absences | | | (144,664) |
| <i>Governmental Activities Net Assets, June 30, 2003</i> | | | <u>\$914,153</u> |

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

Note 4 - Deposits and Investments

State statutes classify monies held by the Educational Service Center into three categories:

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio; (STAR Ohio)

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

Note 4 - Deposits and Investments (continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

At year-end, the carrying amount of the Educational Service Center's deposits was \$751,777 and the bank balance was \$1,020,398. Of the bank balance, \$596,985 was covered by federal depository insurance and \$423,413 was covered by collateral held in the pledging bank's trust department in the Educational Service Center's name. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", requires the Educational Service Center to categorize investments to give an indication of the level of custodial credit risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At fiscal year end the carrying value and market value of the investments in Treasury Notes and STAR Ohio are as indicated in the following chart.

| | <i>Category 3</i> | <i>Carrying Value</i> | <i>Market Value</i> |
|------------------------|-----------------------|---------------------------|-------------------------|
| Federal Home Loan Bank | \$300,000 | \$300,000 | \$300,000 |
| STAR Ohio | | 44,689 | 44,689 |
| <i>Totals</i> | \$300,000 | \$344,689 | \$344,689 |

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

Note 4 - Deposits and Investments (continued)

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

| | <i>Cash and Cash Equivalents/Deposits</i> | <i>Investments</i> |
|--|---|--------------------|
| <i>GASB Statement No. 9</i> | \$1,096,466 | \$0 |
| Investments which are part of the cash management pool: | | |
| STAR Ohio | (44,689) | 44,689 |
| Federal Home Loan Bank | (300,000) | 300,000 |
| <i>GASB Statement No. 3</i> | \$751,777 | \$344,389 |

Note 5 - Receivables

Receivables at June 30, 2004, consisted of accounts (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

| | <i>Amounts</i> |
|--|----------------|
| <i>General Fund:</i> | |
| Customer Services | \$18,202 |
| <i>Total General Fund</i> | 18,202 |
| <i>Special Revenue Funds:</i> | |
| Bus Driver Training | 210 |
| <i>Total Special Revenue Funds</i> | 210 |
| <i>Total Intergovernmental Receivables</i> | \$18,412 |

Note 6 - State Funding

The Educational Service Center is funded by the State Board of Education from State funds for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. To cover all other expenditures, the Educational Service Center receives \$47.02 for each of the 29,460 students who are provided services. The \$47.02 is comprised of the following: \$6.50 times the ADM (total number of pupils under the Educational Service Center's supervision) is apportioned by the State Board of Education among the local school district's to which the Educational Service Center provides services. These payments are received through the State's foundation program. Simultaneously, \$40.52 times the ADM is paid by the State Board of Education from State funds.

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

Note 6 - State Funding

If additional funding is required, and if a majority of the boards of education of the local school districts approve, the cost for all other lawful expenditures in excess of \$47.02 times the ADM approved by the State Board of Education is apportioned back to the local school districts and received through the state foundation program. The State Board of Education initiates and supervises the procedure by which the local boards approve or disapprove the apportionment.

Note 7 - Jointly Governed Organizations and Public Entity Risk Pools

A. Jointly Governed Organizations

The Lake Erie Educational Computer Association (LEECA) is a not-for profit computer organization owned and operated by 31 class "C" sites in the Ohio counties of Cuyahoga, Lorain, Erie, Huron, and Medina. These "C" sites are comprised of various public school districts and educational service centers in the counties previously mentioned. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. LEECA is organized under Chapter 167 and 3313 of the Ohio Revised Code. LEECA is governed by an assembly that consists of a superintendent or designated representative from each participating member. LEECA has a Board of Directors chosen from the general membership of the LEECA Assembly which consists of a representative from the fiscal agent, chairmen of various committees, and a least one member from each participating county. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Sheakley Uniservice, Inc's Group Rating Program was established as an insurance purchasing pool.

The WCGRP'S business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

C. Risk Sharing Pool

The Stark County Schools Council of Governments is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts are calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding twelve month period.

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

Note 8 - Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in the Educational Service Center's capital asset policy:

| | <i>Balance at</i> <u>6/30/03</u> | <i>Adjustments</i> | <i>Restated</i> <i>Balance at</i> <u>6/30/03</u> |
|--|-------------------------------------|--------------------|--|
| <i>Governmental Activities:</i> | | | |
| <i>Capital Assets, being depreciated:</i> | | | |
| Furniture, Fixtures & Equipment | \$430,530 | 0 | \$430,530 |
| Vehicles | 32,673 | 0 | 32,673 |
| <i>Total Capital Assets, being depreciated</i> | <u>463,203</u> | <u>0</u> | <u>463,203</u> |
| <i>Less Accumulated Depreciation:</i> | | | |
| Furniture, Fixtures & Equipment | 0 | (343,414) | (343,414) |
| Vehicles | 0 | (13,780) | (13,780) |
| <i>Total Accumulated Depreciation</i> | <u>0</u> | <u>(357,194)</u> | <u>(357,194)</u> |
| <i>Governmental Activities Capital Assets, Net</i> | <u>\$463,203</u> | <u>(\$357,194)</u> | <u>\$106,009</u> |

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

| | <i>Restated</i> <i>Balance at</i> <u>6/30/03</u> | <i>Additions</i> | <i>Reductions</i> | <i>Balance at</i> <u>6/30/04</u> |
|--|--|-------------------|-------------------|-------------------------------------|
| <i>Governmental Activities:</i> | | | | |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Furniture, Fixtures & Equipment | \$430,530 | \$34,830 | (\$9,752) | \$455,608 |
| Vehicles | 32,673 | 0 | 0 | 32,673 |
| <i>Total Capital Assets, being depreciated</i> | <u>463,203</u> | <u>34,830</u> | <u>(9,752)</u> | <u>488,281</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Furniture, Fixtures & Equipment | (343,414) | (40,867) | 9,752 | (374,529) |
| Vehicles | (13,780) | (6,535) | 0 | (20,315) |
| <i>Total Accumulated Depreciation</i> | <u>(357,194)</u> | <u>(47,402)</u> | <u>0</u> | <u>(394,844)</u> |
| <i>Governmental Activities Capital Assets, Net</i> | <u>\$106,009</u> | <u>(\$12,572)</u> | <u>\$0</u> | <u>\$93,437</u> |

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

Note 8 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|------------------------|
| Instruction: | |
| Adult | \$1,972 |
| Support Services: | |
| Instructional Staff | 29,496 |
| Board | 241 |
| Administration | 692 |
| Fiscal | 786 |
| Business | 12,464 |
| Central | <u>1,752</u> |
| Total Depreciation Expense | <u><u>\$47,402</u></u> |

There was no significant construction in progress at June 30, 2004.

Note 9 - Risk Management

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. The Educational Service Center contracted with Westfield Companies for a Commercial Package Policy from July 1, 2003 to January 31, 2004 and Selective Insurance Company of South Carolina starting February 1, 2004 and for the remainder of the fiscal year. The policy covers all furniture and equipment that has a value equal or greater than \$500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.

Professional liability was protected by the Ohio School Plan from July 1, 2003 to January 31, 2004 and Selective Insurance Company of South Carolina starting February 1, 2004 and for the remainder of the fiscal year. Coverage is \$4,000,000 annual aggregate/\$2,000,000 single occurrence limit and no deductible for each claim. An Umbrella increases the annual aggregate by \$1,000,000 and each occurrence by \$1,000,000. A school leaders error and omissions policy is provided by American International Specialty Lines Insurance Company with an aggregate limit of \$1,000,000 and a deductible of \$5,000. Vehicles were covered by The Cincinnati Insurance Company from July 1, 2003 thru January 31, 2004 and was covered by the Selective Insurance Company of South Carolina for the remainder of the fiscal year. The policy holds a \$500 deductible for comprehensive and for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past fifteen years.

For fiscal year 2004, the Educational Service Center participated in the Sheakley Uniservice, Inc's Compensation Group Rating Program, an insurance purchasing pool (Note 8B). The Program is intended to reduce premiums for the participants. 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 Program. Each participant pays its rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the program. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the program.

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

Note 9 - Risk Management (continued)

Participation in the program is limited to districts that can meet the selection criteria. The Districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Note 10 - Defined Benefit Pension Plan

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; for 2004, 8.17 percent was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Educational Service Center's contributions to SERS for the years ended June 30, 2004, 2003, and 2002 were \$105,343, \$174,443 and \$162,264, respectively, equal to the required contributions for each year. 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues publicly available general purpose financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and the 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,

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

Note 10 - Defined Benefit Pension Plan (continued)

B. State Teachers Retirement System (continued)

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions to STRS for the years ended June 30, 2004, 2003, and 2002 were \$113,536, \$116,346, and \$90,317, respectively, equal to the required contributions for each year. 100 percent of the STRS contributions have been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose social security. As of June 30, 2004, three of the governing board members have elected social security. The board's liability is 6.2 percent of the wages paid.

Note 11 - Post Employment 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-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fee, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the Educational Service Center, this amount equaled \$8,758 during the 2004 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

Note 11 - Post Employment Benefits (continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium for this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge rate 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. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount to fund health care benefits, including surcharge, equaled \$92,370, during the fiscal year. The target level for the health care reserves is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003 (the latest information available), SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participating currently receiving health care benefits.

Note 12 - Employee Benefits

A. Compensated Absences

Certified and Classified employees earn five to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time up to two years plus the prorated share of the current year is paid to all employees upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 240 days.

B. Life Insurance

The Educational Service Center provides \$50,000 life insurance and accidental death and dismemberment insurance to most employees through UNUM Life Insurance Co. of America.

Note 13 - Long-Term Obligations

Changes in long-term obligations during fiscal year 2004, are as follows:

| | <i>Principal Outstanding July 1, 2003</i> | <i>Additions</i> | <i>Deductions</i> | <i>Principal Outstanding June 30, 2004</i> | <i>Due Within One Year</i> |
|------------------------------------|---|------------------|-------------------|--|--------------------------------|
| Compensated Absences | \$144,664 | \$0 | \$11,112 | \$133,552 | \$57,701 |
| <i>Total Long-Term Obligations</i> | <u>\$144,664</u> | <u>\$0</u> | <u>\$11,112</u> | <u>\$133,552</u> | <u>\$57,701</u> |

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

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

Note 14 - Contingencies

A. Grants

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

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect, if any, on the financial condition of the Educational Service Center.

Note 15 - School Funding Issue

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

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

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Ohio Society of Certified Public Accountants

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

Members of the Board
Medina County Educational Service Center
124 West Washington Street
Medina, Ohio 44256

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Medina County Educational Service Center, Medina County, Ohio (the Center), as of and for the year ended June 30, 2004 and have issued our report thereon dated November 22, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Medina County Educational Service Center
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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit Performed in Accordance
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This report is intended for the information and use of the audit committee, management, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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

Balestra, Harr & Scherer, CPAs, Inc.

November 22, 2005



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

MEDINA COUNTY EDUCATIONAL SERVICE CENTER

MEDINA 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
MARCH 14, 2006**