



**Auditor of State
Betty Montgomery**

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fairfield County Educational Service Center
Fairfield County
955 Liberty Drive
Lancaster, Ohio 43130

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Fairfield County Educational Service Center (the Center) as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Fairfield County Educational Service Center, Fairfield County, Ohio, as of June 30, 2003, and the results of its operations 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 April 12, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine 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 you should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery
Auditor of State**

April 12, 2005

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**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

	Governmental Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	General Fixed Assets	General Long Term Obligations	
Assets and Other Debits:					
Equity in Pooled Cash and Cash Equivalents	\$ 712,216	\$ 16,247	\$ -	\$ -	\$ 728,463
Intergovernmental Receivables	535,194	-	-	-	535,194
Accounts Receivable	553	-	-	-	553
Inventory	2,240	-	-	-	2,240
Property, Plant, and Equipment	-	-	275,597	-	275,597
Amount to be Provided for Retirement of General Long Term Obligations	-	-	-	182,981	182,981
Total Assets and Other Debits	\$ 1,250,203	\$ 16,247	\$ 275,597	\$ 182,981	\$ 1,725,028
Liabilities:					
Intergovernmental Payables	\$ 55,957	\$ 191	\$ -	\$ 6,493	\$ 62,641
Accounts Payable	29,083	2,476	-	-	31,559
Accrued Salaries and Benefits	379,420	-	-	-	379,420
Capital Leases Payable	-	-	-	20,718	20,718
Compensated Absences Payable	29,948	-	-	155,770	185,718
Total Liabilities	494,408	2,667	-	182,981	680,056
Fund Equity and Other Credits:					
Investment in General Fixed Assets	-	-	275,597	-	275,597
Fund Balances:					
Reserved for Inventory	2,240	-	-	-	2,240
Unreserved Fund Balance	753,555	13,580	-	-	767,135
Total Fund Balances	755,795	13,580	-	-	769,375
Total Fund Balances and Other Credits	755,795	13,580	275,597	-	1,044,972
Total Liabilities, Fund Equity, and Other Credits	\$ 1,250,203	\$ 16,247	\$ 275,597	\$ 182,981	\$ 1,725,028

See Accompanying Notes to the General Purpose Financial Statements.

**FAIRFIELD COUNTY EDUCATION SERVICE CENTER
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Total</u> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fund Type Expendable Trust</u>	
REVENUES:				
Revenue from Local Sources				
Contractual Services	\$ 3,701,336	\$ -	\$ -	\$ 3,701,336
Earnings on Investments	6,860	-	-	6,860
Miscellaneous	152,751	-	8,500	161,251
Revenue from State Sources				
Unrestricted Grants-in Aid	1,192,504	-	-	1,192,504
Restricted Grants-in Aid	-	122,194	-	122,194
Restricted from Federal Sources				
Unrestricted Grants-in Aid	85,044	30,694	-	
Restricted Grants-in Aid	-	7,560	-	7,560
Total Revenue	5,138,495	160,448	8,500	5,307,443
EXPENDITURES:				
Instruction				
Regular Instruction	68,295	90,437	-	158,732
Special Instruction	1,084,042	30,686	-	1,114,728
Supporting Services				
Supporting Services-Pupils	1,416,847	29,560	-	1,446,407
Supporting Services-Instructional Staff	1,319,256	1,870	8,500	1,329,626
Supporting Services-Board of Education	24,834	-	-	24,834
Supporting Services-Administration	986,459	-	-	986,459
Fiscal Services	137,703	2,675	-	140,378
Operation & Maintenance-Plant	35,139	-	-	35,139
Supporting Services-Central	1,705	-	-	1,705
Community Services	-	2,475	-	2,475
Total Expenditures	5,074,280	157,703	8,500	5,240,483
Excess of Revenues				
Over (Under) Expenditures	64,215	2,745	-	66,960
Increase in Inventory	906	-	-	906
Beginning Fund Balance	690,674	10,835	-	701,509
Ending Fund Balance	<u>\$ 755,795</u>	<u>\$ 13,580</u>	<u>\$ -</u>	<u>\$ 769,375</u>

See Accompanying Notes to the General Purpose Financial Statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BASIS)
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
YEAR ENDED JUNE 30, 2003**

	General Fund			Special Revenue		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Contractual Services	\$ 3,729,174	\$ 3,611,865	\$ (117,309)	\$ -	\$ -	\$ -
Earnings on Investment	-	6,860	6,860	-	-	-
Miscellaneous	126,617	213,311	86,694	-	-	-
State Unrestricted Grants-in-Aid	1,174,052	1,192,504	18,452	-	-	-
State Restricted Grants-in-Aid	-	-	-	-	122,194	122,194
Federal Unrestricted Grants-in-Aid	70,000	94,097	24,097	-	36,991	36,991
Federal Restricted Grants-in-Aid	-	-	-	-	7,560	7,560
Total Revenue	5,099,843	5,118,637	18,794	-	166,745	166,745
Expenditures:						
Regular Instruction	71,656	69,947	1,709	87,328	87,328	-
Special Instruction	1,239,060	1,069,068	169,992	30,694	30,694	-
Support Services-Pupils	1,534,543	1,399,273	135,270	33,835	33,817	18
Support Services-Instructional Staff	1,399,374	1,305,132	94,242	3,535	-	3,535
Support Services-Board of Education	44,281	24,834	19,447	-	-	-
Support Services-Administration	1,500,001	995,535	504,466	-	-	-
Fiscal Services	147,478	137,763	9,715	3,378	2,679	699
Operation & Maintenance-Plant	35,212	35,142	70	-	-	-
Support Services-Central	2,325	1,701	624	-	-	-
Community Services	-	-	-	5,560	2,513	3,047
Repayment of Debt	-	-	-	-	-	-
Total Expenditures	5,973,930	5,038,395	935,535	164,330	157,031	7,299
Excess of Revenues Over (Under) Expenditures	(874,087)	80,242	954,329	(164,330)	9,714	174,044
Other Financing Sources (Uses):						
Advances-In	-	32,453	32,453	-	26,156	(26,156)
Refund of Prior Year Expenditures	-	5,343	5,343	-	-	-
Advances-Out	-	(26,156)	(26,156)	-	(32,453)	(32,453)
Refund of Prior Year Receipts	-	-	-	(3,109)	(3,109)	-
Total Other Sources (Uses)	-	11,640	11,640	(3,109)	(9,406)	(58,609)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(874,087)	91,882	965,969	(167,439)	308	167,747
Beginning Fund Balance	591,129	591,129	-	6,989	6,989	-
Prior Year Carry Over Encumbrances	4,315	4,315	-	-	-	-
Ending Fund Balance	\$ (278,643)	\$ 687,326	\$ 965,969	\$ (160,450)	\$ 7,297	\$ 167,747

(Continued)

See Accompanying Notes to the General Purpose Financial Statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BASIS)
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES (CONTINUED)
YEAR ENDED JUNE 30, 2003**

	Expendable Trust			Total (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Contractual Services	\$ -	\$ -	\$ -	\$3,729,174	\$3,611,865	\$ (117,309)
Earnings on Investment	-	8,500	8,500	-	15,360	15,360
Miscellaneous	-	-	-	126,617	213,311	86,694
State Unrestricted Grants-in-Aid	-	-	-	1,174,052	1,192,504	18,452
State Restricted Grants-in-Aid	-	-	-	-	122,194	122,194
Federal Unrestricted Grants-in-Aid	-	-	-	70,000	131,088	61,088
Federal Restricted Grants-in-Aid	-	-	-	-	7,560	7,560
Total Revenue	-	8,500	8,500	5,099,843	5,293,882	194,039
Expenditures:						
Regular Instruction	-	-	-	158,984	157,275	1,709
Special Instruction	-	-	-	1,269,754	1,099,762	169,992
Support Services-Pupils	-	-	-	1,568,378	1,433,090	135,288
Support Services-Instructional Staff	8,500	8,500	-	1,411,409	1,313,632	97,777
Support Services-Board of Education	-	-	-	44,281	24,834	19,447
Support Services-Administration	-	-	-	1,500,001	995,535	504,466
Fiscal Services	-	-	-	150,856	140,442	10,414
Operation & Maintenance-Plant	-	-	-	35,212	35,142	70
Support Services-Central	-	-	-	2,325	1,701	624
Community Services	-	-	-	5,560	2,513	3,047
Repayment of Debt	-	-	-	-	-	-
Total Expenditures	8,500	8,500	-	6,146,760	5,203,926	942,834
Excess of Revenues Over (Under) Expenditures	(8,500)	-	8,500	(1,046,917)	89,956	1,136,873
Other Financing Sources (Uses):						
Advances-In	-	-	-	-	58,609	58,609
Refund of Prior Year Expenditures	-	-	-	-	5,343	5,343
Advances-Out	-	-	-	-	(58,609)	(58,609)
Refund of Prior Year Receipts	-	-	-	(3,109)	(3,109)	-
Total Other Sources (Uses)	-	-	-	(3,109)	2,234	5,343
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(8,500)	-	8,500	(1,050,026)	92,190	1,142,216
Beginning Fund Balance	-	-	-	598,118	598,118	-
Prior Year Carry Over Encumbrances	-	-	-	4,315	4,315	-
Ending Fund Balance	\$ (8,500)	\$ -	\$ 8,500	\$ (447,593)	\$ 694,623	\$ 1,142,216

See Accompanying Notes to the General Purpose Financial Statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Center is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is governed by a five member Board elected by the citizens of Fairfield County and is responsible for the provision of special education and support services to public school districts located in the County. The Center also provides support services for the pupils and instructional staff, general administration, business and fiscal services.

The Center serves seven local school districts: Amanda-Clearcreek Local, Berne Union Local, Bloom Carroll Local, Fairfield Union Local, Liberty Union-Thurston Local, Pickerington Local and Walnut Township Local as provided by S.B. 140, O.R.C. Section 3313.483. Lancaster City School District and other school districts outside Fairfield County are served on an individual contract basis for various services.

The Center is located in Lancaster, Ohio and is staffed by 63 certified and 37 non-certified personnel. The Fairfield County commissioners, as required by State statute, provide the offices for the use of the Center.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the Center is financially accountable. The reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center is financially accountable.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The Center has no proprietary funds.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following is a fiduciary fund type:

Expendable Trust Fund - This fund accounts for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. The expendable trust fund is accounted for in essentially the same manner as governmental funds.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the Center's fixed assets.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

General Long-Term Debt Account Group - This account group is used to account for all of the Center's long-term obligations.

C. Measurement/Accounting Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements as well as relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and expendable trust funds.

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

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

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

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

Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period also are reported as deferred revenue.

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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget and Budgetary Accounting

The Center's budget is prepared in accordance with the Ohio Revised Code, which only requires that the Center adopt a budget, and for control purposes.

The Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. The annual appropriation resolution is approved by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Board. During the year, several supplemental appropriations were approved. The budget amounts in the budgetary comparisons, represent the final budgeted receipts and the final appropriations as amended throughout the year.

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

The Center prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental and Fiduciary Fund Types" in accordance with the budget basis of accounting.

The major differences between the budgetary basis of accounting and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when paid (budget basis) as opposed to when the liability is incurred (GAAP basis);
- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

Cash received by the Center is pooled in a central bank account with individual fund balance integrity maintained throughout. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" During the fiscal year all investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. For the Center, all investment earnings accrue to the General Fund. Interest income earned in fiscal year 2003 totaled \$6,860.

F. Inventories

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation.

G. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized (\$200 threshold).

Assets in the general fixed assets account group are not depreciated.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

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

The Center currently participates in several State and Federal programs, categorized as follows:

Entitlements:

General Fund

State Foundation Program
CAFS

Special Revenue Funds

Educational Management Information Systems

Non-Reimbursable Grants:

Special Revenue Funds

Alcohol and Drug Education Grant
Title VI-B Early Childhood Preschool
Drug Free Schools Grant
Alternative Education

Grants and entitlements amounted to approximately 27% of the Center's operating revenue during the 2003 fiscal year.

I. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2003, the Center had neither "Due to/Due From Other Funds" nor "Interfund Receivables/Payables."

J. Compensated Absences

The Center accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences (Continued)

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the Center records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligation account group.

K. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligation account group.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. Estimates

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Memorandum Only - Totals

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. BUDGETARY BASIS OF ACCOUNTING

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types**

	General Fund	Special Revenue
GAAP Basis	\$64,215	\$2,745
Increase (Decrease):		
Due to Revenues:		
Net Adjustments to Revenue Accruals	(14,534)	6,297
Due to Expenditures:		
Net Adjustments to Expenditure Accruals	35,885	(2,437)
Due to Other Sources/Uses	6,316	(6,297)
Budget Basis	\$91,882	\$308

NOTE 3. CASH AND INVESTMENTS

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

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 3. CASH AND INVESTMENTS (Continued)

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

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

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

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

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

Deposits: At year end, the carrying amount of the Center's deposits was \$415,291 and the bank balance was \$423,476. Of the bank balance, \$100,000 was covered by federal depository insurance and \$323,476 was covered by the bank's pooled collateral program. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 3. CASH AND INVESTMENTS (Continued)

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

	Unclassified	Reported Amount	Fair Value
STAR Ohio	\$ 313,172	\$ 313,172	\$ 313,172

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, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 728,463	\$ 0
Investments:		
STAR Ohio	(313,172)	313,172
GASB Statement No. 3	\$ 415,291	\$ 313,172

NOTE 4. RECEIVABLES

Receivables at June 30, 2003 consisted of tuition and services to other districts. A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Contract and Other Services	\$535,194
Total General Fund	\$535,194

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 5. FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2003:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Furniture and Equipment	\$275,177	14,363	13,943	\$275,597
Total General Fixed Assets	\$275,177	14,363	13,943	\$275,597

NOTE 6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The 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 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$98,604, \$85,830 and 78,229, respectively; 92.86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$7,503 representing the unpaid contribution for fiscal year 2003, including the surcharge, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 6. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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.

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, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The 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 Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$383,175, \$353,105 and \$324,717, respectively; 98.92 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$4,155 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

NOTE 7. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$27,370 for fiscal year 2003.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 7. POSTEMPLOYMENT BENEFITS (Continued)

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five 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.

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, 2003, 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. For fiscal year 2003, the minimum pay has been established at \$14,500. For the Center, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$66,641.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants receiving health care benefits.

NOTE 8. COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Center Policy and State laws. Only administrative and support personnel who are under a 11 or 12 month contract are eligible for vacation time.

Employees earn ten to twenty days of vacation per year, depending upon length of service. Employees can accumulate one and one half times their vacation to a maximum of thirty days. Accumulated, unused vacation time is paid to employees upon termination of employment.

Personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-5	10
6-10	15
11-Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 200 days. For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of 40 days.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 9. RISK MANAGEMENT

A. General Risk

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$1,000,000 in the aggregate. The Center maintains replacement cost insurance on building contents in the amount of \$146,825, which includes electronic data processing equipment and telephone system coverage.

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

B. Workers' Compensation

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

C. Health Insurance

The Center provides employee insurances through the Metropolitan Educational Center (MEC) insurance program. Those insurances include: United Health Care for health insurance; Delta Dental for dental insurance; Vision Service Plan for vision insurance; and Medical Mutual for life, accidental death and dismemberment insurance.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 10. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance
	July 1, 2002	Additions	Deletions	June 30, 2003
Intergovernmental Payable	\$6,493	\$0	\$0	\$6,493
Capital Leases Payable	30,867	0	10,149	20,718
Compensated Absences Payable	136,310	155,770	136,310	155,770
Total	\$173,670	155,770	146,459	\$182,981

NOTE 11. LEASES

The Center leased two copiers in February, 2000 with an original cost of \$15,079. This equipment has been capitalized in the general fixed assets account group. The obligation has an outstanding balance of \$4,819 at June 30, 2003.

The Center leased one copier in August, 2001 with an original cost of \$22,384. This equipment has been capitalized in the general fixed assets account group. The obligation has an outstanding balance of \$15,899 at June 30, 2003.

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

	2000 Copier Lease	2001 Copier Lease
FY2004	\$3,311	\$5,942
FY2005	1,931	5,942
FY2006	0	5,942
FY2007	0	1,483
Total Payments	5,242	19,309
Less interest	(423)	(3,410)
Present Value of Minimum Lease Payments	\$4,819	\$15,899

NOTE 12. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services and employee medical insurance to the Center. The Center's payments to MEC during the year were \$19,280 for computer services.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Central Ohio Special Education Regional Resource Center (COSERRC)

The Fairfield County Educational Service Center passes a motion each year to become members of COSERRC. The superintendent of the Center is appointed by the Fairfield County Educational Service Center to be the delegate to the Governing Board. COSERRC provides special education services at a regional level, as determined by each of the participating local school districts. The Center has no ongoing financial interest or financial responsibility to COSERRC. The Center made no payments to COSERRC during the year.

Fairfield County Council for Educational Collaboration

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school systems and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council.

The Center appoints the superintendent to be its representative to the Board of Directors of this council.

The Center has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration. The Center made no payments to Fairfield County Council for Educational Collaboration during the year.

Eastland Joint Vocational School District

The Fairfield County Educational Service Center is a member of the Eastland Joint Vocational School District. The Eastland Joint Vocational School District has a nine-member board of education. Representatives to the Eastland Board consists of two of the Centers board members on the Eastland board of education for two years, then three of members for the next two years. The Center alternates this schedule with the Franklin County Educational Service Center.

The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland Joint Vocational School District. The Center made no payments to the Eastland Joint Vocational School District during the year.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003
(Continued)**

NOTE 13. CONTINGENCIES

A. Grants

The 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 Center at June 30, 2003.

B. Litigation

The Center is not a party to any legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending at June 30, 2003.

NOTE 14. SCHOOL FUNDING DECISION

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

As of the date of these financial statements, the Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 15. FUND DEFICITS

Fund balances at June 30, 2003, included the following individual deficit:

Special Revenue Funds:

Alternative Education Grant	\$ (137)
-----------------------------	----------

The deficit resulted from accrued liabilities. The general fund is liable for any deficit in funds and provides operating transfers when cash is required, not when accruals occur.

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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*

Fairfield County Educational Service Center
Fairfield County
955 Liberty Drive
Lancaster, Ohio 43130

To the Board of Education:

We have audited the financial statements of the Fairfield County Educational Service Center, Fairfield County, Ohio (the Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the 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.

Compliance and Other Matters

As part of reasonably assuring whether the Center's 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*.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Fairfield County Educational Service Center
Fairfield 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 management and the Board of Education. 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

April 12, 2005



**Auditor of State
Betty Montgomery**

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

FAIRFIELD 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 26, 2005**