



**Auditor of State
Betty Montgomery**

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund.....	19
Notes to the Basic Financial Statements	21
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By <i>Government Auditing Standards</i>	39

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center, Fairfield County, Ohio, as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

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

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

Financial Highlights

- < The assets of Center exceeded its liabilities at June 30, 2004 by \$681,716. This balance was comprised of \$141,355 in capital assets net of related debt, \$17,549 in net assets restricted for specific purposes, and \$522,812 in unrestricted net assets.
- < In total, net assets of governmental activities decreased by \$50,356, which represents a 6.9 percent decrease from 2003.
- < General revenues accounted for \$2,912,872 or 52.8 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,601,936 or 47.2 percent of total revenues of \$5,514,808.
- < The Center had \$5,565,164 in expenses related to governmental activities; \$2,601,936 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily grants and entitlements and contractual services) of \$2,912,872 were used to provide for these programs.
- < The Center recognizes one major governmental fund: the General Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Center combined. The General Fund had \$5,302,320 in revenues and \$5,396,004 in expenditures in fiscal year 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements, and the notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Reporting the Educational Service Center as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Center's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the Center as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the Center's facility conditions, required but unfunded educational programs, and other factors. Ultimately, the Center's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the Center's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected tuition and fees, and earned but unused vacation leave).

In both of the government-wide financial statements, the Center activities are shown as governmental activities. All of the Educational Service Center's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by charges for services, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Center's major fund. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant fund. The Center's only major governmental fund is the General Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Center are governmental funds.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Center's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the Center as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the Center's net assets for 2004 compared to fiscal year 2003:

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$1,350,304	\$1,266,450
Capital Assets, Net	154,885	145,678
<i>Total Assets</i>	1,505,189	1,412,128
<u>Liabilities:</u>		
Long-Term Liabilities	220,095	176,488
Current & Other Liabilities	603,378	503,568
<i>Total Liabilities</i>	823,473	680,056
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	141,355	124,960
Restricted	17,549	13,580
Unrestricted	522,812	593,532
<i>Total Net Assets</i>	\$681,716	\$732,072

Current and other assets increased \$83,854 from fiscal year 2003 due to an increase in cash and cash equivalents held by the Center. Capital assets increased by \$9,207.

Current (other) liabilities increased \$99,810, primarily due to an increase in accrued wages and benefits and an increase in intergovernmental payables. Long-term liabilities increased \$43,607 due to an increase in compensated absences payable.

The Center's largest portion of net assets is unrestricted. These net assets represent resources that may be used to meet the Center's ongoing obligations to its students and creditors.

The Center's smallest portion of net assets is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

The remaining balance of \$141,355 is related to amounts invested in capital assets, net of related debt. The Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

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

Table 2
Changes in Net Assets

	Governmental Activities 2004
<u>Revenues:</u>	
<i>Program Revenue:</i>	
Charges for Services	\$2,405,119
Operating Grants and Contributions	196,817
<i>General Revenue:</i>	
Unrestricted Grants and Entitlements	1,238,458
Unrestricted Contractual Services	1,641,733
Investment Earnings	3,755
Miscellaneous	28,926
<i>Total Revenues</i>	5,514,808
<u>Expenses:</u>	
<i>Program Expenses:</i>	
<i>Instruction:</i>	
Regular	166,648
Special	1,221,522

(Continued)

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Table 2
Changes in Net Assets

	2004
<i>Support Services:</i>	
Pupil	1,473,683
Instructional Staff	1,480,425
Board of Education	22,983
Administration	1,016,431
Fiscal	138,970
Operation and Maintenance of Plant	40,031
Central	2,354
Interest	2,117
<i>Total Expenses</i>	5,565,164
<i>Change in Net Assets</i>	(50,356)
Net Assets at Beginning of Year	732,072
Net Assets at End of Year	\$681,716

The most significant program expenses for the Center are Special Instruction, Pupil, Instructional Staff, and Administration. These programs account for 93.2 percent of the total governmental activities. Instructional Staff, which represents 26.60 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students. Pupil, which represents 26.48 percent of the total cost, represents costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Special Instruction, which accounts for 21.95 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 18.26 percent of the total, represents costs associated with the overall administrative responsibility of the Center as a whole.

The majority of the funding for the most significant programs indicated above is from charges for services, operating grants and contributions, other grants and entitlements, and contractual service fees that are not restricted for specific programs. These funding sources account for 99.40 percent of total revenues.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Governmental Activities

Over the past several fiscal years, the Center has remained in stable financial condition. The Center is heavily dependent on contractual service fees, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Contractual service fees made up 73.38 percent and intergovernmental revenue made up 26.23 percent of the total revenue for the governmental activities in fiscal year 2004.

The Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2004, the Center received \$1,238,458 through the State's foundation program, which represents 22.45 percent of the total revenue for the governmental activities. The Center relies on this state funding to operate at the current levels of service.

Instruction accounts for 24.94 percent of governmental program expenses. Support services expenses make up 75.02 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by contract fees and unrestricted State entitlements. Comparisons to fiscal year 2003 are not available.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	2004
<i>Program Expenses:</i>		
Instruction	\$1,388,170	(\$94,592)
Support Services	4,174,877	3,055,703
Interest	2,117	2,117
Total Expenses	\$5,565,164	\$2,963,228

The Center's Funds

The Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues of \$5,436,099 and expenditures of \$5,525,814.

Total governmental funds fund balances decreased by \$89,715. The decrease in fund balance for the year was most significant in the General Fund.

The Center should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 show the Educational Service Center may be unable to meet inflationary cost increases in the long-term without meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

Budget Highlights - General Fund

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 most significant budgeted fund is the General Fund.

For the General Fund, the final budget basis revenue was \$5,122,432 representing no change from the original budget estimates. The final budget basis expenditures were \$6,290,357 representing an increase of \$195,773 from the original budget expenditures of \$6,094,584. The final budget reflected a 3.21 percent increase from the original budgeted amount. Most of the difference is due to initial conservative estimates of expenditures by the Center.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had \$154,885 invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$94,177. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation

	<u>Governmental Activities</u>	
	2004	2003
<i>Depreciable Capital Assets:</i>		
Furniture, Fixtures and Equipment	\$249,062	\$222,981
<i>Less Accumulated Depreciation:</i>		
Furniture, Fixtures and Equipment	(94,177)	(77,303)
Capital Assets, Net	\$154,885	\$145,678

More detailed information pertaining to the Center's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2004, the Center had \$13,530 in capital leases outstanding. The Center had no general obligation debt outstanding. More detailed information pertaining to the Center's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

The Center is financially stable, and has been over the past several years. The Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Center to provide a quality education for the students of Fairfield County.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

As indicated in the preceding financial information, the Center relies on the State's foundation program for a major portion of their funding. In addition, in the spring of 2002 the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. 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 statements.

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 Center's finances and to show the Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Teresa Thomas, Treasurer of Fairfield County Educational Service Center, 955 Liberty Drive, Lancaster, Ohio 43130.

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FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY

Statement of Net Assets
June 30, 2004

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$776,251
Accounts Receivable	220
Intergovernmental Receivable	572,139
Materials and Supplies Inventory	1,694
Depreciable Capital Assets, Net	154,885
<i>Total Assets</i>	1,505,189
<u>Liabilities:</u>	
Accounts Payable	24,312
Accrued Wages and Benefits	470,210
Intergovernmental Payable	108,856
<i>Long-Term Liabilities:</i>	
Due within One Year	85,425
Due in More Than One Year	134,670
<i>Total Liabilities</i>	823,473
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	141,355
<i>Restricted for:</i>	
Other Purposes	17,549
Unrestricted	522,812
<i>Total Net Assets</i>	\$681,716

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

*Statement of Activities
For the Fiscal Year Ended June 30, 2004*

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$166,648	\$0	\$92,465	(\$74,183)
Special	1,221,522	1,351,983	38,314	168,775
<i>Support Services:</i>				
Pupil	1,473,683	635,987	63,038	(774,658)
Instructional Staff	1,480,425	417,149	0	(1,063,276)
Board of Education	22,983	0	0	(22,983)
Administration	1,016,431	0	0	(1,016,431)
Fiscal	138,970	0	3,000	(135,970)
Operation and Maintenance of Plant	40,031	0	0	(40,031)
Central	2,354	0	0	(2,354)
<i>Debt Service:</i>				
Interest	2,117	0	0	(2,117)
<i>Total Governmental Activities</i>	<u>\$5,565,164</u>	<u>\$2,405,119</u>	<u>\$196,817</u>	<u>(2,963,228)</u>
 <u>General Revenues:</u>				
Unrestricted Grants and Entitlements				1,238,458
Unrestricted Contractual Service Fees				1,641,733
Investment Earnings				3,755
Miscellaneous				28,926
<i>Total General Revenues</i>				<u>2,912,872</u>
Change in Net Assets				(50,356)
<i>Net Assets at Beginning of Year, As Restated</i>				<u>732,072</u>
<i>Net Assets at End of Year</i>				<u>\$681,716</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$758,702	\$17,549	\$776,251
Accounts Receivable	220	0	220
Intergovernmental Receivable	572,139	0	572,139
Materials and Supplies Inventory	1,694	0	1,694
<i>Total Assets</i>	<u>\$1,332,755</u>	<u>\$17,549</u>	<u>\$1,350,304</u>
<u>Liabilities and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$24,312	\$0	\$24,312
Accrued Wages and Benefits	470,210	0	470,210
Intergovernmental Payable	97,413	0	97,413
Deferred Revenue	78,709	0	78,709
<i>Total Liabilities</i>	<u>670,644</u>	<u>0</u>	<u>670,644</u>
<u>Fund Balances:</u>			
<i>Unreserved, Undesignated, Reported in:</i>			
General Fund	662,111	0	662,111
Special Revenue Funds	0	17,549	17,549
<i>Total Fund Balances</i>	<u>662,111</u>	<u>17,549</u>	<u>679,660</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,332,755</u>	<u>\$17,549</u>	<u>\$1,350,304</u>

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004*

Total Governmental Funds Balances	\$679,660
<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.	154,885
Some of the receivables will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of: Intergovernmental Revenue	78,709
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(11,443)
Liabilities that are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consists of: Compensated absences Leases	(206,565) <u>(13,530)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$681,716</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$1,301,496	\$131,050	\$1,432,546
Interest	3,755	0	3,755
Contractual Services	3,968,143	0	3,968,143
Contributions and Donations	0	2,729	2,729
Miscellaneous	28,926	0	28,926
<i>Total Revenues</i>	<u>5,302,320</u>	<u>133,779</u>	<u>5,436,099</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	74,823	90,170	164,993
Special	1,184,170	37,491	1,221,661
<i>Support Services:</i>			
Pupil	1,463,785	0	1,463,785
Instructional Staff	1,477,379	850	1,478,229
Board of Education	22,983	0	22,983
Administration	986,560	0	986,560
Fiscal	134,735	1,299	136,034
Operation and Maintenance of Plant	40,031	0	40,031
Central	2,233	0	2,233
<i>Debt Service:</i>			
Principal	7,188	0	7,188
Interest	2,117	0	2,117
<i>Total Expenditures</i>	<u>5,396,004</u>	<u>129,810</u>	<u>5,525,814</u>
<i>Net Change in Fund Balances</i>	(93,684)	3,969	(89,715)
<i>Fund Balances at Beginning of Year</i>	<u>755,795</u>	<u>13,580</u>	<u>769,375</u>
<i>Fund Balances at End of Year</i>	<u><u>\$662,111</u></u>	<u><u>\$17,549</u></u>	<u><u>\$679,660</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

*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 (\$89,715)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	11,132
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(1,925)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Intergovernmental revenue	78,709
Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	7,188
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Increase in intergovernmental payables (4,950) Increase in compensated absences <u>(50,795)</u>	
Total expenditures not reported in the funds	<u>(55,745)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$50,356)</u></u>

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Intergovernmental	\$1,234,428	\$1,234,428	\$1,255,978	\$21,550
Interest	0	0	3,755	3,755
Contractual Services	3,857,779	3,857,779	4,055,165	197,386
Miscellaneous	30,225	30,225	29,519	(706)
<i>Total Revenues</i>	<u>5,122,432</u>	<u>5,122,432</u>	<u>5,344,417</u>	<u>221,985</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	72,749	75,505	72,644	2,861
Special	1,209,341	1,257,530	1,174,065	83,465
<i>Support Services:</i>				
Pupils	1,592,186	1,630,420	1,426,942	203,478
Instructional Staff	1,364,190	1,498,110	1,433,772	64,338
Board of Education	33,522	33,875	22,983	10,892
Administration	1,627,404	1,590,797	1,006,007	584,790
Fiscal	154,837	159,765	133,756	26,009
Operation and Maintenance of Plant	38,000	42,000	40,031	1,969
Central	2,355	2,355	2,233	122
<i>Total Expenditures</i>	<u>6,094,584</u>	<u>6,290,357</u>	<u>5,312,433</u>	<u>977,924</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(972,152)</u>	<u>(1,167,925)</u>	<u>31,984</u>	<u>1,199,909</u>
<i>Fund Balance at Beginning of Year</i>	687,326	687,326	687,326	0
<i>Prior Year Encumbrances Appropriated</i>	<u>24,890</u>	<u>24,890</u>	<u>24,890</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>(\$259,936)</u>	<u>(\$455,709)</u>	<u>\$744,200</u>	<u>\$1,199,909</u>

See accompanying notes to the basic financial statements.

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**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

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

Description of the Educational Service Center

The Fairfield County Educational Service Center (the "Center") is located in Lancaster, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Amanda-Clearcreek, Berne Union, Bloom Carroll, Fairfield Union, Liberty Union-Thurston, Pickerington and Walnut Township Local School Districts. Lancaster City School District and other school districts outside Fairfield County are served on an individual contract basis for various services. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Center is staffed by 43 classified and 65 certified employees providing educational service to school districts.

Reporting Entity

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

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

The Center is associated with five organizations. Four are jointly governed organizations, and one is a insurance purchasing pool. These organizations are the Metropolitan Educational Council (MEC), Central Ohio Special Education Regional Resource Center (COSERRC), Fairfield County Council for Educational Collaboration, Eastland Joint Vocational School District and the Ohio School Boards Association Worker's Compensation Group Rating Plan. Information about these organizations is presented in Note 14 and Note 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government. The Center has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Center.

Fund Financial Statements

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

B. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the Center fall within the category of governmental.

Governmental Funds

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds (Continued)

The following is the Center's only major governmental fund:

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

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

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of 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 balance 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. The 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.

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. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Revenues - Exchange and Nonexchange Transactions (Continued)

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the 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 the fiscal year-end: grants, interest, tuition and charges for services.

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to the State Treasury Assets 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, 2004.

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 credited to the General Fund in fiscal year 2004 totaled \$3,755, which includes \$84 assigned from other Center funds.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental funds when consumed or used.

G. Capital Assets

General capital assets 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 in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the 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 are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 10 years

H. Compensated Absences

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

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences (Continued)

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees will be paid. The Center had no compensated absences payable in the fund financial statements.

I. Accrued Liabilities and Long-Term Liabilities

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

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

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets 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 Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

K. Fund Balance Reserves

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

L. Interfund Transactions

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)

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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Budgetary Process

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 original budgeted receipts, the original appropriations, 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.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP 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 fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

NOTE 3 - CHANGES IN ACCOUNTING POLICY AND PRINCIPLES

Change in Accounting Policy

For fiscal year 2004, the District changed the threshold for capitalizing capital assets from \$200 to \$500. This change resulted in a \$52,616 decrease in the cost of capital assets from \$275,597 to \$222,981.

Change in Accounting Principles

For fiscal year 2004, the Center has implemented 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." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 3 - CHANGES IN ACCOUNTING POLICY AND PRINCIPLES (Continued)

Change in Accounting Principles (Continued)

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

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

The restatement for GASB Statement No. 34 is as follows:

	General	Nonmajor	Total
Fund Balances, June 30, 2003	\$755,795	\$13,580	\$769,375
<i>GASB 34 Adjustments:</i>			
Capital Assets, net			145,678
Intergovernmental Payable			(6,493)
<i>Long-Term Obligations:</i>			
Compensated Absences Payable			(155,770)
Capital Leases Payable			(20,718)
Governmental Activities Net Assets, June 30, 2003			\$732,072

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance (GAAP Basis)	(\$93,684)
<i>Adjustments:</i>	
Revenue Accruals	42,097
Expenditure Accruals	69,069
Encumbrances	14,502
	<hr/>
Excess of Revenues Over Expenditures (Budget Basis)	<u>\$31,984</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Center into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are 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 accounts including passbook accounts.

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any 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 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 and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the Center's deposits was \$560,533, and the bank balance was \$610,706. Of the bank balance, \$100,000 was covered by federal depository insurance; and \$510,706 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Center's investments are required to be categorized to give an indication of the level of risk assumed by the Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments 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. The Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified because they are not evidenced by securities that exist in physical or book entry form.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

	Carrying Value	Fair Value
STAR Ohio	\$215,718	\$215,718
Total Investments	\$215,718	\$215,718

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$776,251	\$0
<i>Investments:</i> STAR Ohio	(215,718)	215,718
GASB Statement No. 3	\$560,533	\$215,718

NOTE 6 - INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable at June 30, 2004, consisted of contractual service amounts billed but not yet collected as follows:

Governmental Activities:

General Fund:

Contractual Services \$572,139

NOTE 7 - CAPITAL ASSETS

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

Asset Category	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	\$222,981	\$29,384	(\$3,303)	\$249,062
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	(77,303)	(18,252)	1,378	(94,177)
Total Net Capital Assets	\$145,678	\$11,132	(\$1,925)	\$154,885

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 7 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$30
Special	3,325
<i>Support Services:</i>	
Pupil	239
Instructional Staff	264
Administration	14,273
Central	121
	<hr/>
Total Depreciation Expense	<u>\$18,252</u>

NOTE 8 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the Center contracted through commercial carriers. Coverage provided is as follows:

Building Contents	\$146,825
<i>General Liability:</i>	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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.

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$104,500, \$98,604, and \$85,830. The Center has contributed 77% of the required contributions for fiscal year 2004 and 100% for fiscal year 2003 and 2002, respectively.

State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. 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, 2004, 2003, and 2002 were \$405,398, \$353,105, and \$324,717. The Center has contributed 70% of the required contributions for fiscal year 2004 and 100% for fiscal year 2003 and 2002 , respectively.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one member of the Center's Board has elected Social Security.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients 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. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount equaled \$29,129 during fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship 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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the Center, the amount to fund health care benefits, including the surcharge, equaled \$43,187 for fiscal year 2004.

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

NOTE 11 - EMPLOYEE BENEFITS

Health Care Benefits

The Center provides employees 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.

Compensated Absences

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

Employees earn ten to twenty days of vacation per year, depending upon the 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:

<u>Years Service</u>	<u>Vacation Days</u>
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 employees 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 12 - LONG-TERM LIABILITIES

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

	Outstanding at July 1, 2003	Additions	Deductions	Outstanding at June 30, 2004	Amount Due In One Year
<i><u>Governmental Activities:</u></i>					
Compensated Absences Payable	\$155,770	\$50,795	\$0	\$205,565	\$78,752
Capital Leases Payable	20,718	0	7,188	13,530	6,673
Total Governmental Activities Long-Term Liabilities	<u>\$176,488</u>	<u>\$50,795</u>	<u>\$7,188</u>	<u>\$220,095</u>	<u>\$85,425</u>

Compensated absences will be paid from the fund from which the employee is paid.

Capital leases will be paid from the General Fund.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

The Center leased two copiers in February, 2000 with an original cost of \$15,079. This equipment has been capitalized by the Center. The obligation has an outstanding balance of \$1,877 at June 30, 2004.

The Center leased one copier in August, 2001 with an original cost of \$22,384. This equipment has been capitalized by the Center. The obligation has an outstanding balance of \$11,653 at June 30, 2004.

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:

Fiscal Year Ending June 30,	2000 Copier Lease	2001 Copier Lease	Total
2005	\$1,931	\$5,942	\$7,873
2006	0	5,942	5,942
2007	0	1,486	1,486
Total Future Minimum Lease Payments	1,931	13,370	15,301
Less: Interest	(54)	(1,717)	(1,771)
Present Value of Future Minimum Lease	<u>\$1,877</u>	<u>\$11,653</u>	<u>\$13,530</u>

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY**

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

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council

The 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 Educational Service Center. The Center's payments to MEC during the year were \$19,613 for computer services.

Central Ohio Special Education Regional Resource Center

The Center passes a motion each year to become a member of the Central Ohio Special Education Regional Resource Center (COSERRC). The superintendent of the Fairfield County Educational Service Center is appointed as the delegate to the Governing Board of COSERRC. COSERRC provides special education services at the 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 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 of the Eastland Joint Vocational School District Board consist of two Educational Service Centers board members which serve for two years, then the other three Educational Service Center board members which serve for the next two years. The Center alternates this schedule with the Franklin County Educational Service Center. The 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 15 - INSURANCE PURCHASING POOL

The Center participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Worker's Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and 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 school districts pay an enrollment fee to the Plan to cover costs of administering the program.

NOTE 16 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

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

NOTE 17 - CONTINGENCIES

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of 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, 2004.



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 governmental activities, the major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center, Fairfield County, Ohio (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 12, 2005, wherein we noted the Center implemented Governmental Accounting Standards Board Statement No. 34. 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 opinions 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*.

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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**

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P.O. Box 1140
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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**