

Fairfield County Educational Service Center

Fairfield County, Ohio

Regular Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

528 S. WEST STREET, P.O. Box 687  
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

[www.bhscpas.com](http://www.bhscpas.com)





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Fairfield County Educational Service Center, Fairfield County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 16, 2007

**This Page is Intentionally Left Blank.**

**Fairfield County Educational Service Center**  
*Table of Contents*  
*For the Fiscal Year Ended June 30, 2005*

---

|   |         |
|---|---------|
| Independent Auditor’s Report .....  | 1 – 2   |
| Management’s Discussion and Analysis.....   | 3 – 12  |
| 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<br>to Net Assets of Governmental Activities .....  | 16      |
| Statement of Revenues, Expenditures and Changes in<br>Fund Balances – Governmental Funds .....  | 17      |
| Reconciliation of the Statement of Revenues, Expenditures and<br>Changes in Fund Balances of Governmental Funds to the<br>Statement of Activities .....   | 18      |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balance – Budget and Actual (Budget Basis) – General Fund .....  | 19      |
| Notes to the Basic Financial Statements .....   | 20 – 40 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other<br>Matters Based on an Audit of Financial Statements Performed in Accordance<br>With <i>Government Auditing Standards</i> ..... | 41 – 42 |

**This Page is Intentionally Left Blank.**

# BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

---

Telephone (740) 289-4131  
Fax (740) 289-3639  
www.bhscpas.com

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

## Independent Auditor's Report

Members of the Board  
Fairfield County Educational Service Center  
955 Liberty Drive  
Lancaster, Ohio 43130

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

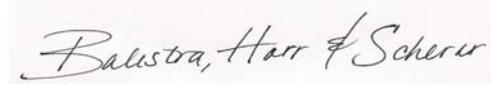
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the general fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007, on our consideration of the Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the basic financial statements, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

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

Balestra, Harr & Scherer, CPAs, Inc.  
March 23, 2007

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

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

The Management's Discussion and Analysis (MD&A) is an element of the 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.

**Financial Highlights**

- ▶ The assets of Fairfield County Educational Service Center exceeded its liabilities at June 30, 2005 by \$469,916. This balance was comprised of a \$75,677 balance invested in capital assets, net of related debt and net asset amounts restricted for specific purposes and a balance of \$394,239 in unrestricted net assets.
- ▶ In total, net assets of governmental activities decreased by \$108,969, which represents an 18.82 percent decrease from 2004.
- ▶ General revenues accounted for \$2,505,813 or 39.57 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,826,685 or 60.43 percent of total revenues of \$6,332,498.
- ▶ The Educational Service Center had \$6,441,467 in expenses related to governmental activities; only \$3,826,685 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily grants and entitlements, and contractual service fees) of \$2,505,813 and \$108,969 of net assets from prior years were used to provide for the remainder of these programs.
- ▶ The Educational Service 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 Educational Service Center combined. The General Fund had \$6,273,859 in revenues and \$6,338,981 in expenditures in fiscal year 2005.

**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 Fairfield County Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

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

**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 Educational Service 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 Educational Service Center, presenting both an aggregate view of the Educational Service 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 takes into account 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 Educational Service 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 Educational Service 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 Educational Service Center's facility conditions, required but unfunded educational programs, and other factors. Ultimately, the Educational Service 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 government'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 contractual service fees, and earned but unused vacation leave).

In both of the government-wide financial statements, the Educational Service Center activities are shown as governmental activities. All of the Educational Service Center's programs and services are reported here including instructional services and support services. These services are funded primarily by charges for services, contractual service 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 reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental fund is the General Fund.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service 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 Educational Service Center are governmental funds.

**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 an accounting method called 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 government'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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the Educational Service Center's net assets for 2005 compared to fiscal year 2004:

Table 1  
**Net Assets**

|   | <u>Governmental Activities</u> |                  |
|---|--------------------------------|------------------|
|   |                                | Restated         |
|   | 2005                           | 2004             |
| <u>Assets:</u>                                  |                                |                  |
| Current and Other Assets                        | \$1,348,646                    | \$1,350,304      |
| Capital Assets, Net                             | 70,920                         | 52,054           |
| <i>Total Assets</i>                             | <u>1,419,566</u>               | <u>1,402,358</u> |
| <u>Liabilities:</u>                             |                                |                  |
| Long-Term Liabilities                           | 208,945                        | 220,095          |
| Other Liabilities                               | 740,705                        | 603,378          |
| <i>Total Liabilities</i>                        | <u>949,650</u>                 | <u>823,473</u>   |
| <u>Net Assets:</u>                              |                                |                  |
| Invested in Capital Assets, Net of Related Debt | 64,062                         | 38,524           |
| Restricted                                      | 11,615                         | 17,549           |
| Unrestricted                                    | 394,239                        | 522,812          |
| <i>Total Net Assets</i>                         | <u>\$469,916</u>               | <u>\$578,885</u> |

Current and other assets decreased \$1,658 from fiscal year 2004 due to an increase in cash and cash equivalents held by the Educational Service Center. Capital assets, net of accumulated depreciation increased by \$18,866.

Current (other) liabilities increased \$137,327 due primarily to an increase of \$109,680 in intergovernmental payables.

Long-term liabilities decreased \$11,150 due to a decrease in the accrual of compensated absences.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

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

The Educational Service 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 \$64,062 is related to amounts invested in capital assets, net of related debt. The Educational Service Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

Table 2 shows the changes in net assets for fiscal year 2005 and comparisons to fiscal year 2004.

Table 2  
**Changes in Net Assets**

|                                       | Governmental Activities |                  |
|---------------------------------------|-------------------------|------------------|
|                                       | 2005                    | Restated<br>2004 |
| <b><u>Revenues:</u></b>               |                         |                  |
| <i>Program Revenue:</i>               |                         |                  |
| Charges for Services and Sales        | \$3,172,624             | \$2,405,119      |
| Operating Grants and Contributions    | 654,061                 | 196,817          |
| <i>General Revenue:</i>               |                         |                  |
| Unrestricted Grants and Entitlements  | 698,484                 | 1,238,458        |
| Unrestricted Contractual Service Fees | 1,764,879               | 1,641,733        |
| Investment Earnings                   | 4,973                   | 3,755            |
| Miscellaneous                         | 37,477                  | 28,926           |
| <i>Total Revenues</i>                 | <u>6,332,498</u>        | <u>5,514,808</u> |
| <b><u>Expenses:</u></b>               |                         |                  |
| <i>Program Expenses:</i>              |                         |                  |
| <i>Instruction:</i>                   |                         |                  |
| Regular                               | 174,399                 | 166,648          |
| Special                               | 1,351,665               | 1,221,522        |

(Continued)

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

Table 2  
**Changes in Net Assets**

|                                    | 2005             | Restated<br>2004 |
|------------------------------------|------------------|------------------|
| <i>Support Services:</i>           |                  |                  |
| Pupils                             | 1,699,082        | 1,473,683        |
| Instructional Staff                | 1,830,449        | 1,480,425        |
| Board of Education                 | 25,921           | 22,983           |
| Administration                     | 1,138,808        | 1,016,431        |
| Fiscal                             | 179,364          | 138,970          |
| Operation and Maintenance of Plant | 38,876           | 40,031           |
| Central                            | 1,702            | 2,354            |
| Interest and Fiscal Charges        | 1,201            | 2,117            |
| <i>Total Expenses</i>              | <u>6,441,467</u> | <u>5,565,164</u> |
| <i>Change in Net Assets</i>        | (108,969)        | (50,356)         |
| Net Assets at Beginning of Year    | <u>578,885</u>   | <u>629,241</u>   |
| Net Assets at End of Year          | <u>\$469,916</u> | <u>\$578,885</u> |

The most significant program expenses for the Educational Service Center are Instructional Staff, Pupils, Special Instruction and Administration. These programs account for 93.46 percent of the total governmental activities. Instructional Staff, which represents 28.42 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students. Pupils, which represent 26.38 percent of the total cost, represent costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Special Instruction, which accounts for 20.98 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 17.68 percent of the total, represents costs associated with the overall administrative responsibility for each building and the Educational Service Center as a whole.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

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 that are not restricted for specific programs and contractual services. These funding sources account for 99.33 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services, contractual service fees, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Contractual service fees and charges for services made up 77.97 percent and intergovernmental revenue made up 21.36 percent of the total revenue for the governmental activities in fiscal year 2005.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2005, the Educational Service Center received \$1,155,441 through the State's foundation program, which represents 18.25 percent of the total revenue for the governmental activities. The Educational Service Center relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 23.69 percent of governmental activities program expenses. Support services expenses make up 76.29 percent of governmental activities 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 2005 compared to fiscal year 2004. That is, it identifies the cost of these services supported by contractual service fees and unrestricted State entitlements.

Table 3  
**Net Cost of Governmental Activities**

|                             | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> |
|-----------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|                             | <u>2005</u>                       | <u>2005</u>                     | <u>2004</u>                       | <u>2004</u>                     |
| <i>Program Expenses:</i>    |                                   |                                 |                                   |                                 |
| Instruction                 | \$1,526,064                       | (\$747,230)                     | \$1,388,170                       | (\$94,592)                      |
| Support Services            | 4,914,202                         | 3,360,811                       | 4,174,877                         | 3,055,703                       |
| Interest and Fiscal Charges | 1,201                             | 1,201                           | 2,117                             | 2,117                           |
| Total Expenses              | <u>\$6,441,467</u>                | <u>\$2,614,782</u>              | <u>\$5,565,164</u>                | <u>\$2,963,228</u>              |

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$6,411,207 and expenditures of \$6,482,926.

Total governmental funds fund balance decreased by \$71,719. The decrease in fund balance for the year was most significant in the General Fund.

The Educational Service Center should remain stable in fiscal years 2006 through 2008. However, projections beyond fiscal year 2008 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.

**Budget Highlights - General Fund**

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The Educational Service Center prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budgeted revenue was \$5,928,385, which did not change from the original budgeted revenue. For the General Fund, the final budgeted expenditures were \$7,073,890 representing an increase of \$386,803 from the original budgeted expenditures of \$6,687,087. The final budget reflected a 5.78 percent increase from the original budgeted amount. Most of the difference is due to initial conservative estimates of expenditures by the Educational Service Center.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005, the Educational Service Center had \$198,512 invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$127,592. Table 4 shows fiscal year 2005 balances compared to fiscal year 2004.

Table 4  
**Capital Assets & Accumulated Depreciation at June 30, 2005**

|                                       | <u>Governmental Activities</u> |                  |
|---------------------------------------|--------------------------------|------------------|
|                                       | 2005                           | Restated<br>2004 |
| <i>Depreciable Capital Assets:</i>    |                                |                  |
| Furniture, Fixtures and Equipment     | \$198,512                      | \$169,807        |
| <i>Less Accumulated Depreciation:</i> |                                |                  |
| Furniture, Fixtures and Equipment     | 127,592                        | 117,753          |
| Capital Assets, Net                   | <u>\$70,920</u>                | <u>\$52,054</u>  |

More detailed information pertaining to the Educational Service Center's capital asset activity can be found in Note 8 of the notes to the basic financial statements.

**Debt Administration**

At June 30, 2005, the Educational Service Center had no general obligation debt outstanding, however, capital leases outstanding amounted to \$6,858.

More detailed information pertaining to the Educational Service Center's long-term debt activity can be found in Note 13 of the notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

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

---

**Current Issues**

Fairfield County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Educational Service 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 Educational Service Center to provide a quality education for the students of Fairfield County.

As indicated in the preceding financial information, the Educational Service Center relies on the State's foundation program for nearly half of their funding. 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. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2005, the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

As of the date of these financial statements, the Educational Service 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 Educational Service Center's finances and to show the Educational Service 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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Net Assets*

*June 30, 2005*

---

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b><u>Assets:</u></b>                           |                                    |
| Equity in Pooled Cash and Cash Equivalents      | \$736,057                          |
| Accounts Receivable                             | 1,444                              |
| Intergovernmental Receivable                    | 608,494                            |
| Materials and Supplies Inventory                | 2,651                              |
| Depreciable Capital Assets, Net                 | <u>70,920</u>                      |
| <i>Total Assets</i>                             | <u>1,419,566</u>                   |
| <b><u>Liabilities:</u></b>                      |                                    |
| Accounts Payable                                | 16,283                             |
| Accrued Wages and Benefits                      | 505,886                            |
| Intergovernmental Payable                       | 218,536                            |
| <i>Long-Term Liabilities:</i>                   |                                    |
| Due within One Year                             | 104,201                            |
| Due in More Than One Year                       | <u>104,744</u>                     |
| <i>Total Liabilities</i>                        | <u>949,650</u>                     |
| <b><u>Net Assets:</u></b>                       |                                    |
| Invested in Capital Assets, Net of Related Debt | 64,062                             |
| <i>Restricted for:</i>                          |                                    |
| Other Purposes                                  | 11,615                             |
| Unrestricted                                    | <u>394,239</u>                     |
| <i>Total Net Assets</i>                         | <u><u>\$469,916</u></u>            |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2005*

|   | <u>Program Revenues</u> |                                      | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|---|-------------------------|--------------------------------------|--|
|   | Expenses                | Charges for<br>Services and<br>Sales | Operating<br>Grants and<br>Contributions                 |
|   |                         |                                      | Governmental<br>Activities                               |
| <b><u>Governmental Activities:</u></b>                      |                         |                                      |  |
| <i>Instruction:</i>   |                         |                                      |  |
| Regular   | \$174,399               | \$0                                  | \$87,121   |
| Special   | 1,351,665               | 1,625,033                            | 561,140  |
| <i>Support Services:</i>                                    |                         |                                      |  |
| Pupils  | 1,699,082               | 1,046,194                            | 0  |
| Instructional Staff   | 1,830,449               | 501,397                              | 0  |
| Board of Education  | 25,921                  | 0                                    | 0  |
| Administration  | 1,138,808               | 0                                    | 2,800  |
| Fiscal  | 179,364                 | 0                                    | 3,000  |
| Operation and Maintenance of Plant                          | 38,876                  | 0                                    | 0  |
| Central   | 1,702                   | 0                                    | 0  |
| Interest and Fiscal Charges                                 | 1,201                   | 0                                    | 0  |
| <i>Total Governmental Activities</i>                        | <u>\$6,441,467</u>      | <u>\$3,172,624</u>                   | <u>\$654,061</u>   |
|   |                         |                                      | (2,614,782)  |
| <b><u>General Revenues:</u></b>                             |                         |                                      |  |
| Grants and Entitlements not Restricted to Specific Programs |                         |                                      | 698,484  |
| Unrestricted Contractual Service Fees                       |                         |                                      | 1,764,879  |
| Investment Earnings   |                         |                                      | 4,973  |
| Miscellaneous   |                         |                                      | 37,477   |
| <i>Total General Revenues</i>                               |                         |                                      | <u>2,505,813</u>   |
| Change in Net Assets  |                         |                                      | (108,969)  |
| <i>Net Assets at Beginning of Year, As Restated</i>         |                         |                                      | <u>578,885</u>   |
| <i>Net Assets at End of Year</i>                            |                         |                                      | <u>\$469,916</u>   |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Balance Sheet*

*Governmental Funds*

*June 30, 2005*

|   | <u>General</u>     | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|--------------------|---|---|
| <b><u>Assets:</u></b>                         |                    |   |   |
| Equity in Pooled Cash and Cash Equivalents    | \$724,442          | \$11,615                                | \$736,057                               |
| Accounts Receivable                           | 1,444              | 0                                       | 1,444                                   |
| Intergovernmental Receivable                  | 608,494            | 0                                       | 608,494                                 |
| Materials and Supplies Inventory              | 2,651              | 0                                       | 2,651                                   |
| <i>Total Assets</i>                           | <u>\$1,337,031</u> | <u>\$11,615</u>                         | <u>\$1,348,646</u>                      |
| <b><u>Liabilities and Fund Balances:</u></b>  |                    |   |   |
| <b><u>Liabilities:</u></b>                    |                    |   |   |
| Accounts Payable                              | \$16,283           | \$0                                     | \$16,283                                |
| Accrued Wages and Benefits                    | 505,886            | 0                                       | 505,886                                 |
| Intergovernmental Payable                     | 217,873            | 663                                     | 218,536                                 |
| <i>Total Liabilities</i>                      | <u>740,042</u>     | <u>663</u>                              | <u>740,705</u>                          |
| <b><u>Fund Balances:</u></b>                  |                    |   |   |
| Reserved for Encumbrances                     | 9,039              | 6,033                                   | 15,072                                  |
| <i>Unreserved, Undesignated, Reported in:</i> |                    |   |   |
| General Fund                                  | 587,950            | 0                                       | 587,950                                 |
| Special Revenue Funds                         | 0                  | 4,919                                   | 4,919                                   |
| <i>Total Fund Balances</i>                    | <u>596,989</u>     | <u>10,952</u>                           | <u>607,941</u>                          |
| <i>Total Liabilities and Fund Balances</i>    | <u>\$1,337,031</u> | <u>\$11,615</u>                         | <u>\$1,348,646</u>                      |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Reconciliation of Total Governmental Fund Balances to*

*Net Assets of Governmental Activities*

*June 30, 2005*

---

|   |                |                         |
|---|----------------|-------------------------|
| <b>Total Governmental Funds Balances</b>  |                | \$607,941               |
| <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.                   |                | 70,920                  |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of: |                |                         |
| Compensated absences  | (202,087)      |                         |
| Capital leases  | <u>(6,858)</u> |                         |
| Total liabilities not reported in the funds   |                | <u>(208,945)</u>        |
| <i>Net Assets of Governmental Activities</i>  |                | <u><u>\$469,916</u></u> |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

|  | General                 | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------------|--------------------------------|--------------------------------|
| <b><u>Revenues:</u></b>                      |                         |                                |                                |
| Intergovernmental                            | \$1,215,197             | \$134,548                      | \$1,349,745                    |
| Interest                                     | 4,973                   | 0                              | 4,973                          |
| Contractual Service Fees                     | 4,734,451               | 0                              | 4,734,451                      |
| Charges for Services                         | 281,761                 | 0                              | 281,761                        |
| Contributions and Donations                  | 1,000                   | 2,800                          | 3,800                          |
| Miscellaneous                                | 36,477                  | 0                              | 36,477                         |
| <i>Total Revenues</i>                        | <u>6,273,859</u>        | <u>137,348</u>                 | <u>6,411,207</u>               |
| <b><u>Expenditures:</u></b>                  |                         |                                |                                |
| <i>Current:</i>                              |                         |                                |                                |
| <i>Instruction:</i>                          |                         |                                |                                |
| Regular                                      | 92,887                  | 87,782                         | 180,669                        |
| Special                                      | 1,326,049               | 39,064                         | 1,365,113                      |
| <i>Support Services:</i>                     |                         |                                |                                |
| Pupils                                       | 1,699,024               | 0                              | 1,699,024                      |
| Instructional Staff                          | 1,827,823               | 3,785                          | 1,831,608                      |
| Board of Education                           | 25,921                  | 0                              | 25,921                         |
| Administration                               | 1,135,914               | 2,725                          | 1,138,639                      |
| Fiscal                                       | 182,912                 | 5,400                          | 188,312                        |
| Operation and Maintenance of Plant           | 38,876                  | 0                              | 38,876                         |
| Central                                      | 1,702                   | 0                              | 1,702                          |
| Operation of Non-Instructional Services      | 0                       | 5,189                          | 5,189                          |
| <i>Debt Service:</i>                         |                         |                                |                                |
| Principal Retirement                         | 6,672                   | 0                              | 6,672                          |
| Interest and Fiscal Charges                  | 1,201                   | 0                              | 1,201                          |
| <i>Total Expenditures</i>                    | <u>6,338,981</u>        | <u>143,945</u>                 | <u>6,482,926</u>               |
| <i>Excess of Revenues Under Expenditures</i> | <u>(65,122)</u>         | <u>(6,597)</u>                 | <u>(71,719)</u>                |
| <i>Fund Balances at Beginning of Year</i>    | <u>662,111</u>          | <u>17,549</u>                  | <u>679,660</u>                 |
| <i>Fund Balances at End of Year</i>          | <u><u>\$596,989</u></u> | <u><u>\$10,952</u></u>         | <u><u>\$607,941</u></u>        |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2005*

---

|   |             |
|---|-------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>   | (\$71,719)  |
| <br><i>Amounts reported for governmental activities in the statement of activities are different because:</i>   |             |
| 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. | 18,866      |
| 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:<br>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.  | 6,672       |
| 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:   |             |
| Decrease in intergovernmental payables  | 11,443      |
| Decrease in compensated absences  | 4,478       |
|   | 15,921      |
| <i>Change in Net Assets of Governmental Activities</i>  | (\$108,969) |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2005*

|   | Budgeted Amounts |                    | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|--------------------|------------------|---|
|   | Original         | Final              |                  |   |
| <b><u>Revenues:</u></b>                             |                  |                    |                  |   |
| Intergovernmental                                   | \$1,892,428      | \$1,892,428        | \$1,258,551      | (\$633,877)   |
| Interest  | 3,300            | 3,300              | 4,973            | 1,673   |
| Contractual Service Fees                            | 3,790,105        | 3,790,105          | 4,588,518        | 798,413   |
| Charges for Services                                | 225,803          | 225,803            | 269,276          | 43,473  |
| Contributions and Donations                         | 0                | 0                  | 1,000            | 1,000   |
| Miscellaneous                                       | 16,749           | 16,749             | 35,253           | 18,504  |
| <i>Total Revenues</i>                               | <u>5,928,385</u> | <u>5,928,385</u>   | <u>6,157,571</u> | <u>229,186</u>  |
| <b><u>Expenditures:</u></b>                         |                  |                    |                  |   |
| <i>Current:</i>                                     |                  |                    |                  |   |
| <i>Instruction:</i>                                 |                  |                    |                  |   |
| Regular   | 76,017           | 94,719             | 91,262           | 3,457   |
| Special   | 1,468,215        | 1,524,175          | 1,288,443        | 235,732   |
| <i>Support Services:</i>                            |                  |                    |                  |   |
| Pupils  | 1,737,862        | 1,821,976          | 1,686,452        | 135,524   |
| Instructional Staff                                 | 1,658,468        | 1,870,344          | 1,779,643        | 90,701  |
| Board of Education                                  | 26,492           | 39,037             | 25,609           | 13,428  |
| Administration                                      | 1,496,265        | 1,496,248          | 1,141,380        | 354,868   |
| Fiscal  | 177,413          | 180,833            | 173,333          | 7,500   |
| Operation and Maintenance of Plant                  | 44,000           | 44,000             | 38,876           | 5,124   |
| Central   | 2,355            | 2,558              | 1,686            | 872   |
| <i>Total Expenditures</i>                           | <u>6,687,087</u> | <u>7,073,890</u>   | <u>6,226,684</u> | <u>847,206</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(758,702)</u> | <u>(1,145,505)</u> | <u>(69,113)</u>  | <u>1,076,392</u>  |
| <i>Fund Balance at Beginning of Year</i>            | 744,200          | 744,200            | 744,200          | 0   |
| <i>Prior Year Encumbrances Appropriated</i>         | <u>14,502</u>    | <u>14,502</u>      | <u>14,502</u>    | <u>0</u>  |
| <i>Fund Balance at End of Year</i>                  | <u>\$0</u>       | <u>(\$386,803)</u> | <u>\$689,589</u> | <u>\$1,076,392</u>                                      |

See accompanying notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

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

**Description of the Educational Service Center**

The Fairfield County Educational Service Center (the “Educational Service Center”) is located in Lancaster, Ohio, the county seat. The Educational Service 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 Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Fairfield County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 50 classified and 72 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 Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Fairfield County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service 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-Fairfield Career and Technical School and the Ohio School Boards Association Worker’s Compensation Group Rating Plan. Information about these organizations is presented in Note 15 and Note 16 to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide 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 Educational Service Center as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Governmental Funds**

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

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

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

The other governmental funds of the Educational Service Center accounts for grants and other resources of the Educational Service 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 Educational Service 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. 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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. 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 Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: grants, interest, contractual service fees 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 Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center records. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

During fiscal year 2005, 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$4,973, which includes \$96 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

**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 fund types when consumed or used.

**G. Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with 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 Educational Service 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           |

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving 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 Educational Service Center's termination policy. The Educational Service 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 Educational Service Center.

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

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.

**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, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds which are restricted as to use per grant agreements.

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**K. Fund Balance Reserves**

The Educational Service 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.

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

The Educational Service 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 final budgeted receipts, the original appropriations, and the final appropriations as amended throughout the year.

In the first quarter of each fiscal year, the Educational Service 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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**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 - PRIOR PERIOD ADJUSTMENT AND NEW GASB PRONOUNCEMENT**

**Prior Period Adjustment**

During fiscal year 2004, the Educational Service Center had a valuation of their capital assets performed that resulted in the June 30, 2004 capital asset balances being overstated.

|                                      | Governmental<br>Activities |
|--------------------------------------|----------------------------|
| Net Assets at June 30, 2004          | \$681,716                  |
| Overstatement of Capital Assets      | (102,831)                  |
| Adjusted Net Assets at June 30, 2004 | <u>\$578,885</u>           |

**New GASB Pronouncement**

For fiscal year 2005, the Educational Service Center implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." The implementation of GASB Statement No. 40 had some effect on the disclosure requirements, however, there was no effect on the prior period net assets or fund balances of the Educational Service Center.

For fiscal year 2005, the Educational Service Center implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers." This Technical Bulletin addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in cost-sharing multiple employer pension and other post-employment benefit (OPEB) Plans. The implementation of this bulletin had no material effect on the Educational Service Center's beginning fund balances.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 4 - ACCOUNTABILITY**

**Fund Deficit**

The following fund had a deficit fund balance as of June 30, 2005:

|                                       | <u>Deficit Fund Balance</u> |
|---------------------------------------|-----------------------------|
| <i>Nonmajor Special Revenue Fund:</i> |                             |
| Alternative School                    | \$663                       |

The deficit in this fund is the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service 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.

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

|                      | <u>Net Change in Fund Balance</u> |
|----------------------|-----------------------------------|
|                      | <u>General</u>                    |
| GAAP Basis           | (\$65,122)                        |
| <i>Adjustments:</i>  | (116,288)                         |
| Revenue Accruals     |                                   |
| Expenditure Accruals | 77,443                            |
| Encumbrances         | 34,854                            |
| Budget Basis         | <u><u>(\$69,113)</u></u>          |

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Educational Service 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 Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities equal to at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Educational Service Center's name. During fiscal year 2005, the Educational Service Center's complied with the provisions of these statutes.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the 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;

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made 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" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the Educational Service Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Educational Service Center. The Educational Service Center's investment policy does not address custodial credit risk for deposits.

At June 30, 2005, the carrying amount of all Educational Service Center deposits was \$617,525. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2005, \$100,000 of the Educational Service Center's bank balance of \$918,302 was covered by Federal Deposit Insurance. The remaining balance of \$818,302 was collateralized with securities held by the financial institution or its agency in the Educational Service Center's name.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

**Investments:** As of June 30, 2005, the Educational Service Center had the following investments and maturities:

| Investment Type | Fair Value | 6 Months or Less |
|-----------------|------------|------------------|
| STAROhio        | \$118,532  | \$118,532        |
| Totals          | \$118,532  | \$118,532        |

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center’s investment policy limits investment portfolio maturities to five years or less.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Educational Service Center’s investment policy does not address credit risk. Standard and Poor’s has assigned STAROhio an “AAAm” money market rating.

**Custodial Credit Risk:** For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the Educational Service Center will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Educational Service Center policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the Educational Service Center or not.

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<br>Equivalents/Deposits | Investments |
|----------------------|---------------------------------------|-------------|
| GASB Statement No. 9 | \$736,057                             | \$0         |
| <i>Investments:</i>  |                                       |             |
| STAR Ohio            | (118,532)                             | 118,532     |
| GASB Statement No. 3 | \$617,525                             | \$118,532   |

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 consisted of accounts and intergovernmental. All receivables are considered collectible in full.

A summary of the principal item of intergovernmental receivable follows:

|                                 |           |
|---------------------------------|-----------|
| <u>Governmental Activities:</u> |           |
| <i>General Fund:</i>            |           |
| Intergovernmental               | \$608,494 |

**NOTE 8 - CAPITAL ASSETS**

Capital asset governmental activity for the fiscal year ended June 30, 2005 was as follows:

| Asset Category                     | Restated<br>Balance at<br>July 1, 2004 | Transfers/<br>Additions | Transfers/<br>Deletions | Balance at<br>June 30, 2005 |
|------------------------------------|--|-------------------------|-------------------------|-----------------------------|
| <i>Depreciable Capital Assets:</i> |  |                         |                         |                             |
| Furniture, Fixtures and Equipment  | \$169,807                              | \$32,580                | (\$3,875)               | \$198,512                   |
| <i>Accumulated Depreciation:</i>   |  |                         |                         |                             |
| Furniture, Fixtures and Equipment  | (117,753)                              | (13,714)                | 3,875                   | (127,592)                   |
| Total Net Capital Assets           | <u>\$52,054</u>                        | <u>\$18,866</u>         | <u>\$0</u>              | <u>\$70,920</u>             |

Depreciation expense was charged to governmental functions as follow:

|                            |                 |
|----------------------------|-----------------|
| <i>Instruction:</i>        |                 |
| Special                    | \$2,217         |
| <i>Support Services:</i>   |                 |
| Administration             | 11,497          |
| Total Depreciation Expense | <u>\$13,714</u> |

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 9 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the Educational Service Center contracted through commercial carriers. Coverages provided are as follows:

|                           |           |
|---------------------------|-----------|
| Building Contents         | \$332,098 |
| <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 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The Educational Service 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 State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$125,305, \$104,500, and \$98,604, respectively. The Educational Service Center has contributed 67.60 percent of the required contributions for fiscal year 2005 and 100 percent for fiscal year 2004 and 2003, respectively.

**State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The 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.

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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, 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 Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$467,125, \$405,398, and \$353,105, respectively. The Educational Service Center has contributed 84.79 percent of the required contributions for fiscal year 2005 and 100 percent for fiscal year 2004 and 2003, 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, 2005, one member of the Educational Service Center's Board has elected Social Security.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-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. 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 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$35,933 during fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 11 - 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 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. 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. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, equaled \$41,142 during the 2005 fiscal year.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005 were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants currently receiving health care benefits is approximately 58,123.

**NOTE 12 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from the Educational Service 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>Twelve Month Employees<br/>Vacation Days</u> | <u>Eleven Month Employees<br/>Vacation Days</u> |
|----------------------|---|---|
| 1-5                  | 10  | 10  |
| 6-10                 | 15  | 10  |
| 11-20                | 20  | 15  |
| Beyond 20            | 20  | 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 Educational Service 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**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 12 - EMPLOYEE BENEFITS** - (Continued)

**Health Care Benefits**

The Educational Service 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.

**NOTE 13 - LONG-TERM LIABILITIES**

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

|  | Principal<br>Outstanding at<br>July 1, 2004 | Additions        | Deductions       | Principal<br>Outstanding at<br>June 30, 2005 | Amount Due<br>In One Year |
|--|---|------------------|------------------|--|---------------------------|
| <i><u>Governmental Activities:</u></i>                 |   |                  |                  |  |                           |
| Compensated Absences Payable                           | \$206,565                                   | \$114,380        | \$118,858        | \$202,087                                    | \$98,259                  |
| Capital Leases Payable                                 | 13,530                                      | 0                | 6,672            | 6,858  | 5,942                     |
| Total Governmental Activities<br>Long-Term Liabilities | <u>\$220,095</u>                            | <u>\$114,380</u> | <u>\$125,530</u> | <u>\$208,945</u>                             | <u>\$104,201</u>          |

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

Capital leases will be paid from the General Fund.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

The Educational Service Center leased two copiers in February, 2000 with an original cost of \$15,079. This equipment has been capitalized by the Educational Service Center. The obligation was paid in full during fiscal year 2005.

The Educational Service Center leased one copier in August, 2001 with an original cost of \$22,384. This equipment has been capitalized by the Educational Service Center. The obligation has an outstanding balance of \$6,858 at June 30, 2005.

The following is a schedule of the minimum lease payments required for the remaining capital lease and the present value of minimum lease payments as of June 30, 2005:

| <u>Fiscal Year Ending June 30,</u>       | <u>Copier<br/>Lease</u> |
|--|-------------------------|
| 2006                                     | \$5,942                 |
| 2007                                     | 1,486                   |
| Total Future Minimum Lease<br>Payments   | 7,428                   |
| Less: Interest                           | (570)                   |
| Present Value of Future<br>Minimum Lease | <u>\$6,858</u>          |

**NOTE 15 - 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 Educational Service 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 Educational Service Center made payments to MEC of \$16,200 during the year for computer services.

**Central Ohio Special Education Regional Resource Center**

The Fairfield County Educational Service 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 Educational Service Center has no ongoing financial interest or financial responsibility to COSERRC. The Educational Service Center made no payments to COSERRC during the year.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS** - (Continued)

**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 Educational Service Center appoints the superintendent to be its representative to the Board of Directors of this council. The Educational Service Center has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration. The Educational Service Center made no payments to the Council during the year.

**Eastland-Fairfield Career and Technical School District**

The Fairfield County Educational Service Center is a member of the Eastland-Fairfield Career and Technical School District. The Eastland-Fairfield Career and Technical School District has a nine-member board of education. Representatives of the Eastland-Fairfield Career and Technical 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 Educational Service Center alternates this schedule with the Franklin County Educational Service Center. The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland-Fairfield Career and Technical School District. The Educational Service Center made no payments to the Eastland-Fairfield Career and Technical School District during the year.

**NOTE 16 - INSURANCE PURCHASING POOL**

The Educational Service 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.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005*

---

**NOTE 17 – 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 Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NOTE 18 - CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms 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 Educational Service Center at June 30, 2005.

# BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

---

Telephone (740) 289-4131

Fax (740) 289-3639

[www.bhscpas.com](http://www.bhscpas.com)

Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

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

Members of the Board  
Fairfield County Educational Service Center  
955 Liberty Drive  
Lancaster, Ohio 43130

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield County Educational Service Center (the Educational Service Center), Fairfield County, Ohio, as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 23, 2007, in which we indicated the Educational Service Center implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

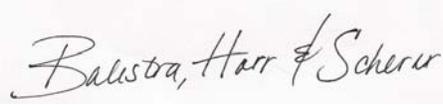
In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

Fairfield County Educational Service Center  
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With *Government Auditing Standards*  
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.  
March 23, 2007



**Mary Taylor, CPA**  
Auditor of State

**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 31, 2007**