

**FRANKLIN COUNTY EDUCATIONAL  
SERVICE CENTER**

**FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)  
*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005***

**MS. MARJORIE FENTON, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Franklin County Educational Service Center  
1717 Alum Creek Drive  
Columbus, Ohio 43207-1754

We have reviewed the *Independent Auditor's Report* of the Franklin County Educational Service Center, prepared by Julian & Grube, 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 Franklin County Educational Service Center is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

April 28, 2006

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**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**TABLE OF CONTENTS**

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 12
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets .....	13
Statement of Activities .....	14
<b>Fund Financial Statements:</b>	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund .....	19
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - Title VI-B.....	20
Statement of Net Assets - Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds.....	22
Statement of Cash Flows - Proprietary Funds .....	23
Statement of Fiduciary Net Assets - Fiduciary Funds .....	24
Notes to the Basic Financial Statements .....	25 - 45
<b>Supplemental Data:</b>	
Schedule of Receipts and Expenditures of Federal Awards .....	46
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	47 - 48
Report on Compliance With Requirements Applicable to Its Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	49 - 50
Schedule of Findings <i>OMB Circular A-133 § .505</i> .....	51
Status of Prior Audit Findings .....	52



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

Governing Board  
Franklin County Educational Service Center  
1717 Alum Creek Drive  
Columbus, OH 43207

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Franklin County Educational Service Center, Franklin County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General fund and Title VI-B special revenue fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. In addition, as disclosed in Note 3, the Center had a prior period adjustment for capital assets due to a re-appraisal, change in capitalization threshold and to correct errors and omissions reported in previous years and to restate interfund loans.

Independent Auditor's Report  
Franklin County Educational Service Center

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2006, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.  
January 17, 2006

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The discussion and analysis of the Franklin County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$2,371,644 which represents a 28.68% increase from 2004.
- General revenues accounted for \$4,054,104 in revenue or 12.51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$28,351,211 or 87.49% of total revenues of \$32,405,315.
- The Center had \$30,033,671 in expenses related to governmental activities; \$28,351,211 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of \$4,054,104 were adequate to provide for these programs.
- The Center's major governmental funds include the general fund, Title VI-B and Permanent Improvement fund. The general fund had \$22,696,367 in revenues and \$21,997,710 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance increased \$698,657 from \$4,577,719 to \$5,276,376.
- Another of the Center's major governmental funds is the Title VI-B fund. The Title VI-B fund had \$5,267,195 in revenues and \$4,652,146 in expenditures. During fiscal 2005, its fund balance increased \$615,049 from a deficit of \$799 to a positive fund balance of \$614,250.
- The Center's other major fund is the Permanent Improvement fund. During fiscal 2005, the Permanent Improvement fund maintained a fund balance of \$2,000,000.

**Using these Basic Financial Statements (BFS)**

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

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



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Reporting the Center as a Whole**

***Statement of Net Assets and the Statement of Activities***

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

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include increased or decreased services desired by school districts, state budget cuts, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the Center's programs and services, including instruction, support services, and other operations.

The Center's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the Center's Most Significant Funds**

***Fund Financial Statements***

The analysis of the Center's major governmental funds begins on page 9. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

***Governmental Funds***

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

***Proprietary Funds***

The District maintains only one type of proprietary fund. The internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District has two internal service funds that account for a self-insurance program which provides health and dental benefits to employees and the Leadership Academy program. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

***Reporting the Center's Fiduciary Responsibilities***

The Center maintains agency funds to account for monies due to other governments, individuals or private organizations. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

***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. These notes to the basic financial statements can be found on pages 25-45 of this report.

**The Center as a Whole**

The Statement of Net Assets provides the perspective of the Center as a whole.

Net assets at June 30, 2004, have been restated to properly record capital assets (see Note 3.A. to the basic financial statements for detail). The table below provides a summary of the Center's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 13,671,342	\$ 10,829,136
Capital assets	<u>1,190,429</u>	<u>1,136,864</u>
Total assets	<u>14,861,771</u>	<u>11,966,000</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,401,859	2,930,430
Long-term liabilities	<u>819,487</u>	<u>766,789</u>
Total liabilities	<u>4,221,346</u>	<u>3,697,219</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,190,429	1,136,864
Restricted	4,247,552	3,452,715
Unrestricted	<u>5,202,444</u>	<u>3,679,202</u>
Total net assets	<u>\$ 10,640,425</u>	<u>\$ 8,268,781</u>

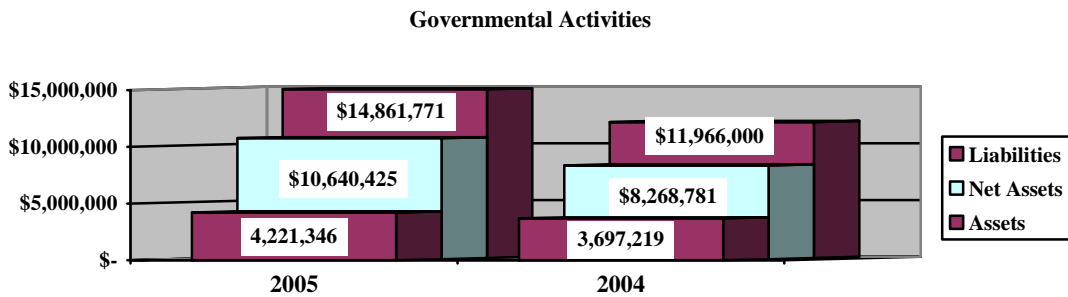
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Center's assets exceeded liabilities by \$10,640,425. Of this total, \$5,202,444 is unrestricted in use.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

At year-end, capital assets represented 8.01% of total assets. Capital assets include furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,190,429. These capital assets are used to provide the Center's services and are not available for future spending.

A portion of the Center's net assets, \$4,247,552, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$5,202,444 may be used to meet the Center's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 19,216,238	\$ 15,967,428
Operating grants and contributions	9,134,973	6,534,470
General revenues:		
Grants and entitlements	3,840,245	3,817,246
Investment earnings	180,224	80,502
Other	33,635	18,606
<b>Total revenues</b>	<u>32,405,315</u>	<u>26,418,252</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	<b>Change in Net Assets</b>	
	Governmental	Restated
	Activities	Governmental
	<u>2005</u>	<u>2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Special	\$ 9,963,761	\$ 8,621,619
Vocational	-	100
Other	7,301	8,159
Support services:		
Pupil	619,423	825,956
Instructional staff	10,949,790	10,175,126
Board of education	133,928	94,987
Administration	6,275,691	6,001,870
Fiscal	755,492	548,454
Business	191,294	197,213
Operations and maintenance	613,495	485,192
Pupil transportation	23,682	25,098
Central	369,297	136,073
Operations of non-instructional services	130,495	175,576
Extracurricular activities	<u>22</u>	<u>170</u>
Total expenses	<u>30,033,671</u>	<u>27,295,593</u>
Change in net assets	2,371,644	(877,341)
Net assets at beginning of year	<u>8,268,781</u>	<u>9,146,122</u>
Net assets at end of year	<u>\$ 10,640,425</u>	<u>\$ 8,268,781</u>

**Governmental Activities**

Net assets of the Center's governmental activities increased \$2,371,644. Total governmental expenses of \$30,033,671 were offset by program revenues of \$28,351,211 and general revenues of \$4,054,104. Program revenues supported 94.40% of the total governmental expenses.

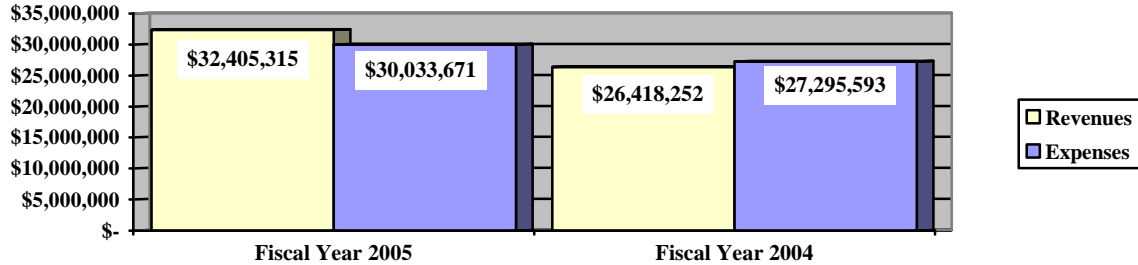
The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 59.30% of total governmental revenue.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2005 and 2004

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted state grants and entitlements, and other general revenues not restricted to a specific program.

**Governmental Activities**

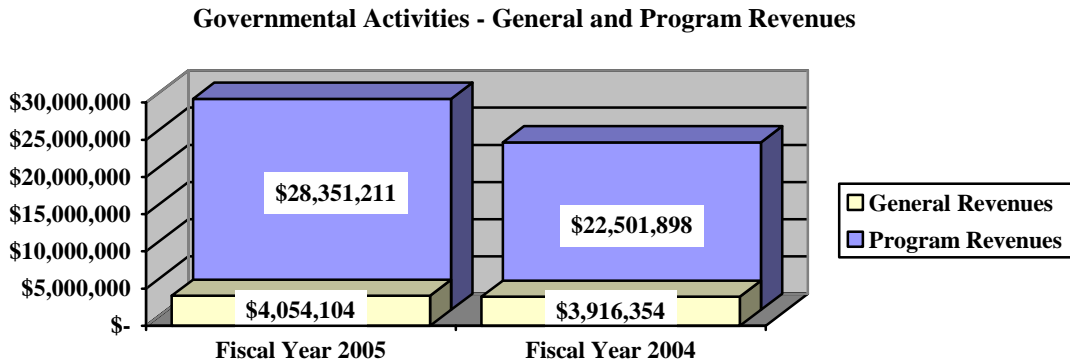
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
<b>Program expenses</b>				
Instruction:				
Special	\$ 9,963,761	\$ 287,345	\$ 8,621,619	\$ 1,139,432
Vocational	-	-	100	(21)
Adult education	7,301	(159)	8,159	(1,585)
Support services:				
Pupil	619,423	(252,679)	825,956	(290,749)
Instructional staff	10,949,790	325,700	10,175,126	1,632,033
Board of education	133,928	133,928	94,987	94,987
Administration	6,275,691	240,078	6,001,870	1,367,223
Fiscal	755,492	531,180	548,454	403,389
Business	191,294	47,500	197,213	59,167
Operations and maintenance	613,495	232,677	485,192	53,094
Pupil transportation	23,682	23,682	25,098	25,098
Central	369,297	234,161	136,073	136,073
Operations of non-instructional services	130,495	(120,975)	175,576	175,576
Extracurricular activities	<u>22</u>	<u>22</u>	<u>170</u>	<u>(22)</u>
<b>Total expenses</b>	<b><u>\$ 30,033,671</u></b>	<b><u>\$ 1,682,460</u></b>	<b><u>\$ 27,295,593</u></b>	<b><u>\$ 4,793,695</u></b>

For all governmental activities, program revenue support is 94.40% at June 30, 2005 and 82.44% at June 30, 2004. The primary support of the Center is contracted fees for services provided to other districts.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

The graph below presents the Center's governmental activities revenue for fiscal year 2005 and 2004.



**The Center's Funds**

The Center's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$8,621,721, which is higher than last year's total of \$6,720,667 as restated (see Note 3.A. to the basic financial statements for detail). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase
General	\$ 5,276,376	\$ 4,577,719	\$ 698,657
Title VI-B	614,250	(799)	615,049
Permanent Improvement	2,000,000	2,000,000	-
Other Governmental	<u>731,095</u>	<u>343,747</u>	<u>387,348</u>
Total	<u>\$ 8,621,721</u>	<u>\$ 6,920,667</u>	<u>\$ 1,701,054</u>

**General Fund**

The Center's general fund balance increased in fiscal 2005 \$698,657 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to an increase in tuition and customer services revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

	<u>2005</u>	<u>Restated</u> <u>2004</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Tuition	\$ 8,895,514	\$ 7,072,754	25.77 %
Customer services	9,758,684	8,879,257	9.90 %
Earnings on investments	180,224	80,502	123.88 %
Intergovernmental	3,840,245	3,817,246	0.60 %
Other revenues	<u>21,700</u>	<u>18,606</u>	16.63 %
Total	<u>\$ 22,696,367</u>	<u>\$ 19,868,365</u>	14.23 %
<b><u>Expenditures</u></b>			
Instruction	\$ 9,159,057	\$ 8,423,609	8.73 %
Support services	<u>12,820,813</u>	<u>11,835,535</u>	8.32 %
Total	<u>\$ 21,979,870</u>	<u>\$ 20,259,144</u>	8.49 %

***Title VI-B Fund***

During fiscal 2005, the Title VI-B fund balance increased \$615,049 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to an increase of intergovernmental revenue received during the available period and increase in deferred revenue. Revenues totaled \$5,267,195 and expenditures totaled \$4,652,146 during fiscal 2005.

***Permanent Improvement Fund***

The Permanent Improvement fund maintained a fund balance of \$2,000,000 during fiscal 2005. During fiscal 2003, the Center identified the need for certain improvements to the Center and transferred \$2,000,000 from the general fund. The improvements were not started as of June 30, 2005.

***General Fund Budgeting Highlights***

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

For the general fund, original budgeted revenues and other financing sources of \$22,156,993 were increased to \$22,157,493 in the final budget. Actual revenues and other financing sources for fiscal 2005 were \$23,338,505. This represents a \$1,181,012 increase from the final budgeted revenues and other financing sources.

General fund original budgeted expenditures and other financing uses of \$22,871,026 were increased to \$24,163,376 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$22,576,747, which was \$1,586,629 lower than the final budget appropriations.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Capital Assets**

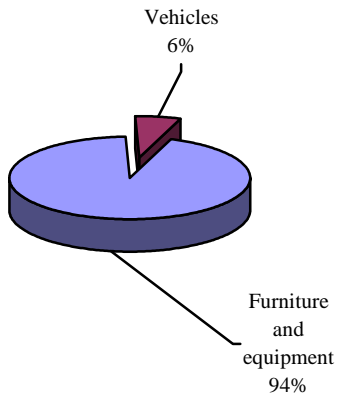
At the end of fiscal 2005, the Center had \$1,190,429 invested in furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 1,117,261	\$1,048,964
Vehicles	<u>73,168</u>	<u>87,900</u>
<b>Total</b>	<b><u>\$ 1,190,429</u></b>	<b><u>\$1,136,864</u></b>

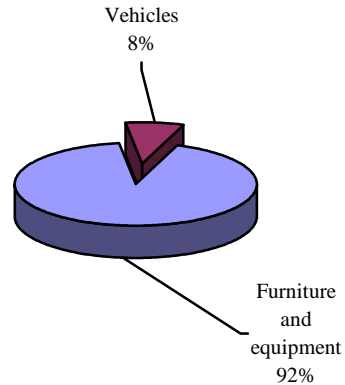
Total additions to capital assets for 2005 were \$368,998. A total of \$315,433 in depreciation expense was recognized for fiscal 2005.

The graphs below present the Center's capital assets for fiscal 2005 and fiscal 2004.

**Capital Assets - Governmental Activities  
2005**



**Capital Assets - Governmental Activities  
2004**



See Note 7 to the basic financial statements for additional information on the Center's capital assets.



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

**Current Financial Related Activities**

The Center is in a stable financial position at the end of June 2005. The Governing Board has a Permanent Improvement fund to cover possible future office space needs or payment of office building rental and future technology equipment needs. Legislative requirements for the development of Ohio Regional Educational Delivery Systems will have an impact on educational service centers in the future. At this time it is impossible to determine what effect this legislation will have on the Franklin County Educational Service Center.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions regarding this report or requests for need additional financial information should be directed to Marjorie Fenton, Treasurer, Franklin County Educational Service Center, 1717 Alum Creek Drive, Columbus, Ohio 43207.

**BASIC  
FINANCIAL STATEMENTS**

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 10,207,411
Receivables:	
Accounts . . . . .	7,918
Intergovernmental . . . . .	3,419,830
Accrued interest . . . . .	16,874
Prepayments . . . . .	19,309
Capital assets:	
Depreciable capital assets, net . . . . .	1,190,429
Capital assets, net. . . . .	1,190,429
 Total assets. . . . .	 14,861,771
 <b>Liabilities:</b>	
Accounts payable. . . . .	253,714
Accrued wages and benefits . . . . .	2,121,342
Intergovernmental payable . . . . .	527,827
Claims payable . . . . .	498,976
Long-term liabilities:	
Due within one year. . . . .	175,148
Due in more than one year . . . . .	644,339
 Total liabilities . . . . .	 4,221,346
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,190,429
Restricted for:	
Capital projects . . . . .	2,000,000
Locally funded programs . . . . .	29,330
State funded programs . . . . .	307,842
Federally funded programs . . . . .	1,910,060
Student activities . . . . .	320
Unrestricted. . . . .	5,202,444
 Total net assets . . . . .	 \$ 10,640,425

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Special . . . . .	\$ 9,963,761	\$ 8,691,819	\$ 984,597	\$ (287,345)
Other . . . . .	7,301	-	7,460	159
Support services:				
Pupil . . . . .	619,423	774,414	97,688	252,679
Instructional staff . . . . .	10,949,790	9,145,357	1,478,733	(325,700)
Board of education . . . . .	133,928	-	-	(133,928)
Administration . . . . .	6,275,691	460,854	5,574,759	(240,078)
Fiscal . . . . .	755,492	-	224,312	(531,180)
Business . . . . .	191,294	143,794	-	(47,500)
Operations and maintenance . . . . .	613,495	-	380,818	(232,677)
Pupil transportation . . . . .	23,682	-	-	(23,682)
Central . . . . .	369,297	-	135,136	(234,161)
Operation of non-instructional services . . . . .	130,495	-	251,470	120,975
Extracurricular activities . . . . .	22	-	-	(22)
Total governmental activities . . . . .	\$ 30,033,671	\$ 19,216,238	\$ 9,134,973	(1,682,460)
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs . . . . .				3,840,245
Investment earnings . . . . .				180,224
Miscellaneous . . . . .				33,635
Total general revenues . . . . .				4,054,104
Change in net assets . . . . .				2,371,644
<b>Net assets at beginning of year (restated) . . . . .</b>				<b>8,268,781</b>
<b>Net assets at end of year . . . . .</b>				<b>\$ 10,640,425</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Title VI-B</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 6,259,459	\$ 783,539	\$ 2,000,000	\$ 734,010	\$ 9,777,008
Receivables:					
Accounts . . . . .	7,918	-	-	-	7,918
Intergovernmental . . . . .	1,622,650	904,235	-	892,945	3,419,830
Accrued interest . . . . .	16,874	-	-	-	16,874
Interfund loans . . . . .	444,162	-	-	-	444,162
Prepayments. . . . .	18,576	733	-	-	19,309
	<u>8,369,639</u>	<u>1,688,507</u>	<u>2,000,000</u>	<u>1,626,955</u>	<u>13,685,101</u>
Total assets . . . . .	<u>\$ 8,369,639</u>	<u>\$ 1,688,507</u>	<u>\$ 2,000,000</u>	<u>\$ 1,626,955</u>	<u>\$ 13,685,101</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 52,718	\$ 101,458	\$ -	\$ 99,489	\$ 253,665
Accrued wages and benefits . . . . .	1,951,931	121,712	-	47,699	2,121,342
Compensated absences payable . . . . .	3,750	-	-	-	3,750
Intergovernmental payable. . . . .	495,664	23,067	-	9,096	527,827
Interfund loan payable . . . . .	-	4,994	-	439,168	444,162
Deferred revenue. . . . .	589,200	823,026	-	300,408	1,712,634
	<u>3,093,263</u>	<u>1,074,257</u>	<u>-</u>	<u>895,860</u>	<u>5,063,380</u>
Total liabilities . . . . .	<u>3,093,263</u>	<u>1,074,257</u>	<u>-</u>	<u>895,860</u>	<u>5,063,380</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	329,585	719,536	-	721,715	1,770,836
Reserved for prepayments . . . . .	18,576	733	-	-	19,309
Unreserved, undesignated (deficit), reported in:					
General fund . . . . .	4,928,215	-	-	-	4,928,215
Special revenue funds. . . . .	-	(106,019)	-	9,380	(96,639)
Capital projects funds. . . . .	-	-	2,000,000	-	2,000,000
	<u>5,276,376</u>	<u>614,250</u>	<u>2,000,000</u>	<u>731,095</u>	<u>8,621,721</u>
Total fund balances . . . . .	<u>5,276,376</u>	<u>614,250</u>	<u>2,000,000</u>	<u>731,095</u>	<u>8,621,721</u>
Total liabilities and fund balances . . . . .	<u>\$ 8,369,639</u>	<u>\$ 1,688,507</u>	<u>\$ 2,000,000</u>	<u>\$ 1,626,955</u>	<u>\$ 13,685,101</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	8,621,721
<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.			1,190,429
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Customer services	\$	589,200	
Intergovernmental revenue		1,123,434	
Total			1,712,634
Internal service funds are used by management to charge the costs of insurance and the Leadership Academy to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			(68,622)
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			(815,737)
			(815,737)
<b>Net assets of governmental activities</b>		\$	10,640,425

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Title VI-B</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Tuition . . . . .	\$ 8,895,514	\$ -	\$ -	\$ -	\$ 8,895,514
Customer services . . . . .	9,758,684	-	-	-	9,758,684
Earnings on investments . . . . .	180,224	-	-	-	180,224
Other local revenues . . . . .	21,700	-	-	-	21,700
Intergovernmental - state . . . . .	3,840,245	-	-	1,426,282	5,266,527
Intergovernmental - federal . . . . .	-	5,267,195	-	2,499,115	7,766,310
Total revenues . . . . .	<u>22,696,367</u>	<u>5,267,195</u>	<u>-</u>	<u>3,925,397</u>	<u>31,888,959</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Special . . . . .	9,159,057	43,654	-	733,594	9,936,305
Other . . . . .	-	-	-	7,301	7,301
Support services:					
Pupil . . . . .	525,215	-	-	96,203	621,418
Instructional staff . . . . .	9,658,846	755,163	-	587,023	11,001,032
Board of education . . . . .	133,939	-	-	-	133,939
Administration . . . . .	1,182,634	3,443,893	-	1,795,173	6,421,700
Fiscal . . . . .	576,423	87,125	-	112,840	776,388
Business . . . . .	201,477	-	-	-	201,477
Operations and maintenance . . . . .	290,284	322,311	-	7,500	620,095
Pupil transportation . . . . .	23,682	-	-	-	23,682
Central . . . . .	228,313	-	-	90,871	319,184
Operation of non-instructional services . . . . .	-	-	-	125,362	125,362
Extracurricular activities . . . . .	-	-	-	22	22
Total expenditures . . . . .	<u>21,979,870</u>	<u>4,652,146</u>	<u>-</u>	<u>3,555,889</u>	<u>30,187,905</u>
Excess of revenues under expenditures . . . . .	<u>716,497</u>	<u>615,049</u>	<u>-</u>	<u>369,508</u>	<u>1,701,054</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	17,840	17,840
Transfers (out) . . . . .	(17,840)	-	-	-	(17,840)
Total other financing sources (uses) . . . . .	<u>(17,840)</u>	<u>-</u>	<u>-</u>	<u>17,840</u>	<u>-</u>
Net change in fund balances . . . . .	698,657	615,049	-	387,348	1,701,054
<b>Fund balances at beginning of</b>					
<b>year (restated) . . . . .</b>	<u>4,577,719</u>	<u>(799)</u>	<u>2,000,000</u>	<u>343,747</u>	<u>6,920,667</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 5,276,376</u>	<u>\$ 614,250</u>	<u>\$ 2,000,000</u>	<u>\$ 731,095</u>	<u>\$ 8,621,721</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

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

**Net change in fund balances - total governmental funds** \$ 1,701,054

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciaton expense in the current period.

Capital asset additions	368,998	
Current year depreciation	(315,433)	
Total		53,565

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Customer services	(355,402)	
Intergovernmental revenue	871,758	
Total		516,356

The internal service funds used by management to charge the costs of insurance and the Leadership Academy to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds is allocated among the governmental activities.

149,617

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

(48,948)

**Change in net assets of governmental activities** **\$ 2,371,644**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 9,377,552	\$ 9,378,052	\$ 8,885,528	\$ (492,524)
Customer services . . . . .	8,431,342	8,431,342	9,872,303	1,440,961
Earnings on investments. . . . .	100,000	100,000	161,203	61,203
Other local revenues. . . . .	20,000	20,000	16,928	(3,072)
Intergovernmental - state . . . . .	<u>3,845,920</u>	<u>3,845,920</u>	<u>3,840,245</u>	<u>(5,675)</u>
Total revenues . . . . .	<u>21,774,814</u>	<u>21,775,314</u>	<u>22,776,207</u>	<u>1,000,893</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Special. . . . .	8,929,209	9,450,024	9,010,109	439,915
Support services:				
Pupil. . . . .	686,065	550,723	525,086	25,637
Instructional staff . . . . .	9,289,602	9,905,483	9,444,365	461,118
Board of education . . . . .	126,000	130,479	124,405	6,074
Administration. . . . .	1,480,560	1,341,178	1,278,744	62,434
Fiscal . . . . .	447,595	638,409	608,690	29,719
Business . . . . .	324,535	236,707	225,688	11,019
Operations and maintenance. . . . .	283,180	587,073	559,744	27,329
Pupil transportation . . . . .	51,725	30,068	28,668	1,400
Central. . . . .	<u>251,555</u>	<u>262,451</u>	<u>250,233</u>	<u>12,218</u>
Total expenditures . . . . .	<u>21,870,026</u>	<u>23,132,595</u>	<u>22,055,732</u>	<u>1,076,863</u>
Excess of revenues over (under) expenditures. . . . .	<u>(95,212)</u>	<u>(1,357,281)</u>	<u>720,475</u>	<u>2,077,756</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures. . . . .	5,000	5,000	4,969	(31)
Refund of prior year's (receipts) . . . . .	(1,000)	(1,000)	-	1,000
Transfers in. . . . .	-	-	4,576	4,576
Transfers (out) . . . . .	(350,000)	(379,781)	(31,171)	348,610
Advances in. . . . .	377,179	377,179	552,753	175,574
Advances (out) . . . . .	<u>(650,000)</u>	<u>(650,000)</u>	<u>(489,844)</u>	<u>160,156</u>
Total other financing sources (uses) . . . . .	<u>(618,821)</u>	<u>(648,602)</u>	<u>41,283</u>	<u>689,885</u>
Net change in fund balance . . . . .	(714,033)	(2,005,883)	761,758	2,767,641
<b>Fund balance at beginning of year. . . . .</b>	4,941,976	4,941,976	4,941,976	-
<b>Prior year encumbrances appropriated . . . . .</b>	220,952	220,952	220,952	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 4,448,895</u>	<u>\$ 3,157,045</u>	<u>\$ 5,924,686</u>	<u>\$ 2,767,641</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
TITLE VI-B  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental - state. . . . .	\$ 6,245,122	\$ 6,245,122	\$ 5,185,986	\$ (1,059,136)
Total revenue. . . . .	<u>6,245,122</u>	<u>6,245,122</u>	<u>5,185,986</u>	<u>(1,059,136)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Special. . . . .	-	68,565	60,432	8,133
Support services:				
Instructional staff . . . . .	715,036	799,366	704,547	94,819
Administration. . . . .	3,952,344	4,615,620	4,068,127	547,493
Fiscal . . . . .	127,014	139,700	123,129	16,571
Operations and maintenance. . . . .	314,746	406,263	358,073	48,190
Total expenditures . . . . .	<u>5,109,140</u>	<u>6,029,514</u>	<u>5,314,308</u>	<u>715,206</u>
Excess of revenues over (under) expenditures. . . . .	<u>1,135,982</u>	<u>215,608</u>	<u>(128,322)</u>	<u>(343,930)</u>
<b>Other financing sources:</b>				
Refund of prior year's expenditures. . . . .	202	-	202	202
Advances in. . . . .	4,994	-	4,994	4,994
Total other financing sources . . . . .	<u>5,196</u>	<u>-</u>	<u>5,196</u>	<u>5,196</u>
Net change in fund balance . . . . .	1,141,178	215,608	(123,126)	(338,734)
<b>Fund balance at beginning of year. . . . .</b>	(101,958)	(101,958)	(101,958)	-
<b>Prior year encumbrances appropriated . . . . .</b>	189,351	189,351	189,351	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,228,571</u>	<u>\$ 303,001</u>	<u>\$ (35,733)</u>	<u>\$ (338,734)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

	<b>Governmental Activities - Internal Service Funds</b>
<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . . . .	\$ 430,403
Total assets . . . . .	430,403
<b>Liabilities:</b>	
Accounts payable. . . . .	49
Claims payable . . . . .	498,976
Total liabilities . . . . .	499,025
<b>Net assets:</b>	
Unrestricted. . . . .	(68,622)
Total net assets . . . . .	\$ (68,622)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 3,137,472
Other. . . . .	22,144
Total operating revenues . . . . .	3,159,616
 <b>Operating expenses:</b>	
Purchased services. . . . .	44,409
Materials and supplies. . . . .	7,513
Claims. . . . .	2,955,253
Other. . . . .	2,824
Total operating expenses . . . . .	3,009,999
 Change in net assets. . . . .	149,617
 <b>Net assets at beginning of year (restated). .</b>	<b>(218,239)</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ (68,622)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services. . . . .	\$ 3,137,472
Cash received from other operations . . . . .	22,144
Cash payments for purchased services . . . . .	(48,469)
Cash payments for materials and supplies. . . . .	(7,513)
Cash payments for claims . . . . .	(2,879,708)
Cash payments for other expenses. . . . .	(3,272)
	220,654
Net cash provided by operating activities . . . . .	220,654
<b>Cash flows from noncapital financing activities:</b>	
Advances out . . . . .	(200,000)
	(200,000)
Net cash used in noncapital financing activities . . . . .	(200,000)
Net increase in cash and cash equivalents . . . . .	20,654
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>409,749</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 430,403</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 149,617
Changes in assets and liabilities:	
Decrease in accounts payable . . . . .	(4,508)
Increase in claims payable. . . . .	75,545
	75,545
Net cash provided by operating activities . . . . .	\$ 220,654

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 1,292,179
Receivables:	
Intergovernmental . . . . .	740,905
Total assets. . . . .	\$ 2,033,084
<b>Liabilities:</b>	
Accounts payable. . . . .	\$ 128,712
Accrued wages and benefits . . . . .	65,674
Compensated absences payable . . . . .	23,929
Intergovernmental payable . . . . .	602,402
Due to others . . . . .	1,212,367
Total liabilities . . . . .	\$ 2,033,084

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - DESCRIPTION OF THE CENTER**

The Franklin County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio.

The Center operates under a locally-elected five member Governing Board form of government and provides educational services as mandated by State or Federal agencies. The Governing Board controls the Center's staff that provides services to over 87,470 students and other community members in Franklin County.

The Center provides services in the area of special education classes, supervision, administration, fiscal and other needed services to four local school districts in Franklin County and also has city/county agreements with nine city school districts. In addition, the Center provides contracted services to eleven school districts and fiscal services for various state and local agencies such as the Central Ohio Special Education Regional Resource Center, Ohio Department of Education projects, Ohio Coalition of Children with Disabilities, and the Catholic Diocese.

The Center serves local school districts: Canal Winchester Local School District, Groveport Madison Local School District, Hamilton Local School District, Plain Local School District and city school districts as provided by S.B. 140, O.R.C. Section 3313.483. Other school districts outside Franklin County are served on an individual contract basis for various services.

The Center is located in Columbus, Ohio and is staffed by 41 administrators, 204 certified and 195 non-certified personnel.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' government board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise have access to organizations resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government). The following organizations are described due to their relationship with the Center.

*JOINTLY GOVERNED ORGANIZATIONS*

Metropolitan Educational Council (the "MEC") - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts and educational service centers in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County school districts and the Center. School districts and educational service centers outside of Franklin County are associate members and each county selects a single district or center to represent them on the governing board. MEC is its own fiscal agent. The Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services to the Center.

Central Ohio Special Education Regional Resource Center (the "SERRC") - The SERRC is a special education service center and is a part of the Ohio Department of Education. The Center selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Title VI-B - The Title VI-B is used to account for Federal monies which assist states in the identification of handicapped children, and provision of full educational opportunities to handicapped children at the preschool, elementary, and secondary levels.

Permanent Improvement Fund - This fund is used to account for all transactions related to the acquiring, construction, or improving of permanent improvement.

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

***PROPRIETARY FUNDS***

Proprietary funds are used to account for the Center's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the Center's proprietary funds:

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Center, or to other governments, on a cost-reimbursement basis. The internal service funds of the Center account for a self-insurance program which provides medical benefits to employees and the Leadership Academy program.

***FIDUCIARY FUNDS***

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

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the Center that are governmental and those that are considered business-type.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Center and for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Center. 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 Center.

Fund Financial Statements - Fund financial statements report detailed information about the Center. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Center's internal service funds is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Contractual services provided by the Center during the fiscal year for which payment is not received in the available period. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets and Budgetary Accounting**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents are the budget and the appropriation resolution, both of which are prepared on the budgetary basis of accounting. The appropriation resolution is subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level must have approval of the Governing Board. All governmental and proprietary fund types are subject to annual expenditures budgets.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Appropriations - An annual appropriation measure must be passed by the Governing Board by October 1<sup>st</sup> of each year for the period July 1<sup>st</sup> to June 30<sup>th</sup>. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Annual Appropriation Resolution is usually adopted at the July regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Expenditures may not exceed appropriations in any fund.

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

**F. Cash and Investments**

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

During fiscal year 2005, investments were limited to federal agency securities and investments in the State Treasury Asset Reserve (STAR Ohio). Investments are reported at fair value, which is based on quoted market prices, with the following exception: investment contracts that had a remaining maturity of one year or less at the time of purchase are reported at amortized cost.

The Center has invested funds in STAR Ohio during fiscal 2005. 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.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 \$180,224, which includes \$77,597 assigned from other Center funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Center's investment account at fiscal year-end is provided in Note 4.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**G. Capital Assets**

General capital assets are those assets specifically related to 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. During fiscal 2005, the Center increased its capitalization threshold from \$500 to \$1,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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>Governmental Activities Estimated Lives</u>
Furniture and equipment	5 - 20 years
Vehicles	5 - 15 years

**H. Compensated Absences**

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

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

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**I. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, 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 during the current year.

**J. Fund Balance Reserves**

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

**K. Net Assets**

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

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

**L. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**M. Estimates**

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Center, these revenues are charges for services for self-insurance programs and the Leadership Academy. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

**O. Interfund Activity**

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

**P. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Prior Period Adjustments**

For fiscal year 2005, the Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

During 2005, the Center had a reappraisal of its capital assets and increased its capitalization threshold (see Note 2.G. for detail). Capital assets at June 30, 2004, will be restated to reflect the reappraisal and to correct errors and omissions reported in previous years. In addition, interfund loans were understated at June 30, 2004, and will be restated to properly state the balance.



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Center, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2, and the prior period adjustments for capital assets and interfund loans had the following effect on the fund balances and net assets as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Title VI-B</u>	<u>Permanent Improvement</u>	<u>Other Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 4,680,936	\$ 1,437	\$ 2,000,000	\$ 343,747	\$ 7,026,120
Adjustment for GASB Technical Bulletin 2004-002	(153,217)	(2,236)	-	-	(155,453)
Adjustment for understated interfund loans	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Fund balance at June 30, 2004, restated	<u>\$ 4,577,719</u>	<u>\$ (799)</u>	<u>\$ 2,000,000</u>	<u>\$ 343,747</u>	<u>\$ 6,920,667</u>
	<u>Governmental Activities</u>				
Net assets at June 30, 2004	\$ 7,943,138				
Adjustment for capital assets	<u>325,643</u>				
Net assets at June 30, 2004, restated	<u>\$ 8,268,781</u>				
	<u>Internal Service Funds</u>				
Net assets at June 30, 2004	\$ (168,239)				
Adjustment for understated interfund loan payable	<u>(50,000)</u>				
Net assets at June 30, 2004, restated	<u>\$ (218,239)</u>				

**B. Deficit Fund Balances**

Fund balances at June 30, 2005 included the following individual fund deficits:

Nonmajor Fund

IDEA Preschool Grant for the Handicapped	\$ 15,341
Self Insurance	118,804

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**A. Cash on Hand**

At year-end, the Center had \$750 in undeposited cash on hand which is included on the financial statements of the Center as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all Center deposits was \$4,607,933. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$4,703,056 of the Center's bank balance of \$5,103,056 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the 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 Center.

**C. Investments**

As of June 30, 2005, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>13 to 18 months</u>
FHLMC Discount Note	\$ 3,480,479	\$ 3,480,479	\$ -
FHLBC	147,282	-	147,282
FHLB DN	2,988,047	2,988,047	-
STAR Ohio	270,234	270,234	-
U.S. Govt money market	4,865	4,865	-
	<u>\$ 6,890,907</u>	<u>\$ 6,743,625</u>	<u>\$ 147,282</u>

The weighted average maturity of investments is .10 years.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Center's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The Center's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2005:

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,607,933
Investments	6,890,907
Cash on hand	750
Total	\$ 11,499,590
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 10,207,411
Agency funds	1,292,179
Total	\$ 11,499,590

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 444,162

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:

General fund	\$ 17,840
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Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2005 consisted of intergovernmental (billings to school districts for user charged services), accounts (charges for individual tuition on other services) and accrued interest. All receivables are considered collectible in full. A summary of the items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Accounts	\$ 7,918
Intergovernmental	3,419,830
Accrued Interest	16,874

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 7 - CAPITAL ASSETS**

Capital assets have been restated due to a reappraisal, change in capitalization threshold, and to correct errors and omissions reported in previous years:

	<u>Balance 06/30/04</u>	<u>Adjustments</u>	<u>Restated Balance 06/30/04</u>
<i>Capital assets, being depreciated:</i>			
Furniture and equipment	\$ 1,253,611	\$ 897,711	\$ 2,151,322
Vehicles	<u>203,292</u>	<u>(17,581)</u>	<u>185,711</u>
Total capital assets, being depreciated	<u>1,456,903</u>	<u>880,130</u>	<u>2,337,033</u>
<i>Less: accumulated depreciation:</i>			
Furniture and equipment	(536,176)	(566,182)	(1,102,358)
Vehicles	<u>(109,506)</u>	<u>11,695</u>	<u>(97,811)</u>
Total accumulated depreciation	<u>(645,682)</u>	<u>(554,487)</u>	<u>(1,200,169)</u>
Governmental activities capital assets, net	<u>\$ 811,221</u>	<u>\$ 325,643</u>	<u>\$ 1,136,864</u>

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 7 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 2,151,322	\$ 368,998	\$ (16,127)	\$ 2,504,193
Vehicles	<u>185,711</u>	<u>-</u>	<u>-</u>	<u>185,711</u>
Total capital assets, being depreciated	<u>2,337,033</u>	<u>368,998</u>	<u>(16,127)</u>	<u>2,689,904</u>
<i>Less: accumulated depreciation:</i>				
Furniture and equipment	(1,102,357)	(300,702)	16,127	(1,386,932)
Vehicles	<u>(97,812)</u>	<u>(14,731)</u>	<u>-</u>	<u>(112,543)</u>
Total accumulated depreciation	<u>(1,200,169)</u>	<u>(315,433)</u>	<u>16,127</u>	<u>(1,499,475)</u>
Governmental activities capital assets, net	<u>\$ 1,136,864</u>	<u>\$ 53,565</u>	<u>\$ -</u>	<u>\$ 1,190,429</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Special \$ 119,189

Support Services:

Instructional staff 8,241

Administration 113,780

Fiscal 12,604

Business 10,211

Central 51,408

Total depreciation expense \$ 315,433

**NOTE 8 - LONG-TERM OBLIGATIONS**

The Center's long-term obligations at fiscal year-end consist of the following:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Compensated absences	<u>\$ 766,789</u>	<u>\$ 283,095</u>	<u>\$ (230,397)</u>	<u>\$ 819,487</u>	<u>\$ 175,148</u>

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

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 9 - RISK MANAGEMENT**

**A. General Risk**

The Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Fleet insurance is maintained in the amount of \$1,000,000 for each occurrence.

The Center maintains replacement cost insurance on building contents in the amount of \$2,223,500 with supplemental coverage for computers and classroom equipment in the amount of \$480,000. Other insurance includes hired non-owned auto coverage for employees using their vehicles for Center business.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

**B. Workers' Compensation Liability-Public Entity Risk Pool**

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts and educational service centers is calculated as one experience and a common premium rate is applied to all school Centers 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 and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - RISK MANAGEMENT - (Continued)**

**C. Health and Dental Insurance**

The Center has established a self-insurance fund for health and dental insurance. Claims are administered by a third party administrator, Polaris Benefit Administrators. The Center pays 80% of contributions and employees pay 20%. These amounts are deposited monthly by check from the general fund, special revenue funds, and other agency funds in an account held by the Center. Expenses for claims are recorded as other expenses when claims are approved and paid. For internal control, check registers are submitted to the Treasurer weekly for approval. A monthly check register is e-mailed to the Treasurer. Cancelled checks are received by the Treasurer's office and fiscal staff reconciles the bank statements.

A summary of changes in self-insurance claims:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Balance</u> <u>June 30, 2004</u>
Claims liabilities at beginning of year	\$ 423,431	\$ 627,779
Incurred claims	2,955,253	2,812,341
Claims paid	<u>(2,879,708)</u>	<u>(3,016,689)</u>
Claim liabilities at end of year	<u>\$ 498,976</u>	<u>\$ 423,431</u>

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from Center policy and state laws. Only administrative and support personnel who are under a full year contract are eligible for vacation time.

The Superintendent, Deputy Superintendent, Treasurer and Directors receive twenty days of vacation per year. Certified employees on an eleven month contract receive ten days per year. All other full time employees earn up to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
1 - 9	10
10 - 19	15
20 - Beyond	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis.

For all employees, retirement severance is paid to each employee retiring from the Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employee's accumulated sick leave at the time of his/her retirement up to a maximum of thirty (30) days for employees with less than eight years of service and a maximum of fifty (50) days for employees with eight years or more of service.



**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 11 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,205,257, \$1,100,595 and \$1,066,937, respectively; 100% has been contributed for fiscal years 2005, 2004, 2003.

**B. State Teachers Retirement System**

The District 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 11 - DEFINED BENEFIT PENSION PLAN - (Continued)**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,406,788, \$1,256,713, and \$1,174,417, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal 2005 were \$65,139 made by the District and \$54,963 made by plan members.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS 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. Most benefit recipients pay a portion of the 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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$100,485 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$579,909 during the 2005 fiscal year.

**NOTE 13 - STATE FUNDING**

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provided services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Governing Board initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While 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 is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>	<u>Title VI-B</u>
Budget basis	\$ 761,758	\$ (123,126)
Net adjustment for revenue accruals	(79,840)	81,209
Net adjustment for expenditure accruals	(299,532)	(157,110)
Net adjustment for other sources/uses	(59,123)	(5,196)
Adjustment for encumbrances	375,394	819,272
GAAP basis	\$ 698,657	\$ 615,049

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

**B. Litigation**

The Center is not a party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

**C. State School Funding Decision**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Center is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL RECEIPTS	(A) CASH FEDERAL DISBURSEMENTS
<b>OFFICE OF LIBRARY SERVICES, INSTITUTE OF MUSEUM AND LIBRARY SERVICES, NATIONAL FOUNDATION OF THE ARTS AND HUMANITIES PASSED THROUGH</b>				
<b>N/A:</b>				
State Library Program	45.310	N/A	\$ 1,000	\$ 1,000
Total State Library Program			<u>1,000</u>	<u>1,000</u>
Total Office of Library Services, Institute of Museum and Library Services, National Foundation of the Arts and Humanities			<u>1,000</u>	<u>1,000</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE</b>				
<b>N/A</b>				
Comprehensive School Reform Demonstration	84.332	H324T990029	6,382	23,322
Total Comprehensive School Reform Demonstration			<u>6,382</u>	<u>23,322</u>
Rehabilitation Services Demonstration and Training Programs	84.235	H235E040005	100,000	50,000
Total Rehabilitation Services Demonstration and Training Program			<u>100,000</u>	<u>50,000</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>				
<i>Special Education Cluster:</i>				
(B) Special Education: Grants to States	84.027	046938-6B-AA-2005	7,500	2,274
(B) Special Education: Grants to States	84.027	046938-6B-EC-2005	20,000	9,873
(B) Special Education: Grants to States	84.027	046938-6B-II-2005	8,250	8,263
(B) Special Education: Grants to States	84.027	046938-6B-PT-2004-P	236,451	249,638
(B) Special Education: Grants to States	84.027	046938-6B-PT-2005	628,763	544,900
(B) Special Education: Grants to States	84.027	046938-6B-SA-2004-P	29,560	30,123
(B) Special Education: Grants to States	84.027	046938-6B-SA-2004-P	5,000	9,938
(B) Special Education: Grants to States	84.027	046938-6B-SA-2005	80,000	80,000
(B) Special Education: Grants to States	84.027	046938-6B-SE-2005	413,296	476,771
(B) Special Education: Grants to States	84.027	046938-6B-SI-2004-P	1,829,250	1,518,698
(B) Special Education: Grants to States	84.027	046938-6B-SI-2005	272,989	296,086
(B) Special Education: Grants to States	84.027	046938-6B-SV-2004-P	1,971,378	1,598,110
Total Special Education: Grants to States			<u>5,302,437</u>	<u>4,824,674</u>
(B) Special Education: Preschool Grants	84.173	046938-PG-A1-2003	2,972	15,529
(B) Special Education: Preschool Grants	84.173	046938-PG-D1-2004	1,918	9,050
(B) Special Education: Preschool Grants	84.173	046938-PG-D2-2003	204,973	73,470
(B) Special Education: Preschool Grants	84.173	046938-PG-D2-2004	150,898	150,898
(B) Special Education: Preschool Grants	84.173	046938-PG-D2-2005	85,389	157,319
(B) Special Education: Preschool Grants	84.173	046938-PG-D4-2005	43,000	43,000
(B) Special Education: Preschool Grants	84.173	046938-PG-D6-2003	104,171	104,171
(B) Special Education: Preschool Grants	84.173	046938-PG-S1-2005	92,812	92,812
(B) Special Education: Preschool Grants	84.173	046938-ST-S1-2005	69,700	69,573
Total Special Education: Preschool Grants			<u>755,833</u>	<u>715,822</u>
Total Special Education Cluster			<u>6,258,270</u>	<u>5,540,496</u>
(C) GOALS 2000	84.276	046938-G2-SP-2001	(4,000)	-
Total GOALS 2000			<u>(4,000)</u>	<u>-</u>
State Grants for Innovative Programs	84.298	046938-C2-A2-2004	110,403	88,459
Total State Grants for Innovative Programs			<u>110,403</u>	<u>88,459</u>
English Language Acquisition Grants	84.365	046938-T3-S1-2004	11,386	11,607
English Language Acquisition Grants	84.365	046938-T3-S1-2005	20,344	47,765
Total English Language Acquisition Grants			<u>31,730</u>	<u>59,372</u>
(D) Improving Teacher Quality State Grants	84.367	046938-TR-A2-2004	(62,500)	-
Improving Teacher Quality State Grants	84.367	046938-TR-SA-2004	71,504	10,343
Improving Teacher Quality State Grants	84.367	046938-TR-SA-2005	158,679	123,309
Improving Teacher Quality State Grants	84.367	046938-TR-SP-2004	235,830	18,415
Improving Teacher Quality State Grants	84.367	046938-TR-SP-2005	80,850	130,682
Total Improving Teacher Quality State Grants			<u>464,363</u>	<u>282,749</u>
Total U.S. Department of Education			<u>6,860,766</u>	<u>5,971,076</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:</b>				
State Children's Insurance Program	93.767	N/A	15,287	15,287
Total State Children's Insurance Program			<u>15,287</u>	<u>15,287</u>
Medical Assistance Program	93.778	N/A	96,733	96,733
Total Medical Assistance Program			<u>96,733</u>	<u>96,733</u>
Total U.S. Department of Health and Human Services			<u>112,020</u>	<u>112,020</u>
Total Federal Financial Assistance			<u>\$ 7,080,168</u>	<u>\$ 6,157,418</u>

- (A) This schedule was prepared on the cash basis of accounting.  
(B) Included as part of "Special Education Cluster" in determining major programs.  
(C) Amount repaid to the Ohio Department of Education based on expiration of period of availability.  
(D) Amount transferred to FY05 grant based on Ohio Department of Education Administrative Action.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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***

Governing Board  
Franklin County Educational Service Center  
1717 Alum Creek Drive  
Columbus, OH 43207

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin County Educational Service Center (the "Center"), as of and for the fiscal year ended June 30, 2005, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 17, 2006. As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. In addition, as disclosed in Note 3, the Center had a prior period adjustment for capital assets due to a re-appraisal, change in capitalization threshold, to correct errors and omissions reported in previous years and to restate interfund loans. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Center in a separate letter dated January 17, 2006.

Governing Board  
Franklin County Educational Service Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to management in a separate letter dated January 17, 2006.

This report is intended solely for the information and use of management and the Governing Board, federal awarding agencies and pass through entities, 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 "Julian & Grube, Inc.".

Julian & Grube, Inc.  
January 17, 2006



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Federal Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

Governing Board  
Franklin County Educational Service Center  
1717 Alum Creek Drive  
Columbus, OH 43207

Compliance

We have audited the compliance of the Franklin County Educational Service Center (the “Center”) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2005. As disclosed in Note 3 to the financial statements, the Center implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. In addition, as disclosed in Note 3, the Center had a prior period adjustment for capital assets due to a re-appraisal and change in capitalization threshold, to correct errors and omissions in previous years and to restate interfund loans. The Center’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center’s management. Our responsibility is to express an opinion on the Center’s compliance based on our audit.

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



Governing Board  
Franklin County Educational Service Center

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of the Center, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.  
January 17, 2006

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Special Education Cluster: Special Education: Grants to States (CFDA #84.027); and Special Education: Preschool Grants (CFDA #84.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER  
FRANKLIN COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2004-FCESC-001	The schedule of federal expenditures and receipts from the 4502 provided to the auditors' to audit was not complete/correct.	Yes	N/A
2004-FCESC-002	The Center has delegated the health insurance claims processing function, which is a significant accounting function, to a third-party administrator in which a SAS-70 report was not issued.	No	Recommendation in Management Letter





**Auditor of State  
Betty Montgomery**

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800-282-0370

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**FRANKLIN COUNTY EDUCATIONAL SERVICE CENTER**

**FRANKLIN 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 11, 2006**