

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

**ANNUAL AUDIT REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

*Wolfe, Wilson, & Phillips, Inc.*  
*37 South Seventh Street*  
*Zanesville, Ohio 43701*





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Fairfield County Educational Service Center, Fairfield County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 21, 2013

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**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER  
FAIRFIELD COUNTY**

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**WOLFE, WILSON, & PHILLIPS, INC.**  
**37 SOUTH SEVENTH STREET**  
**ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

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

To The Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center, Fairfield County as of and for the year ended June 30, 2012, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center, Fairfield County as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2012, on our consideration of Fairfield County Educational Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis listed in the table of contents to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Center's financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated in all material respects in relation to the financial statements as a whole.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
November 13, 2012



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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The discussion and analysis of the Fairfield County Educational Service Center's financial performance provides an overview and analysis of the Educational Service Center's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

- ▶ The assets of Fairfield County Educational Service Center exceeded its liabilities at June 30, 2012 by \$934,942. This balance was comprised of a \$454,756 balance invested in capital assets, net of related debt, and net asset amounts restricted for specific purposes and a balance of \$480,186 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$346,421, which represents a 58.86 percent increase from 2011.
- ▶ General revenues accounted for \$2,430,400 or 28.00 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,248,212 or 72.00 percent of total revenues of \$8,678,612.
- ▶ The Educational Service Center had \$8,332,191 in expenses related to governmental activities; only \$6,248,212 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily grants and entitlements, and contractual service fees) of \$2,430,400 were used to provide for the remainder of these programs.
- ▶ The Educational Service Center recognizes two major governmental funds: the General and Capital Project Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Educational Service Center combined. The General Fund had \$8,600,880 in revenues and \$8,293,417 in expenditures in fiscal year 2012.

**Using this Annual Report**

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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**Reporting the Educational Service Center as a Whole**

**Government-Wide Financial Statements**

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

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

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

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

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

**Fund Financial Statements**

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and Capital Projects Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Educational Service Center can be divided into one of two categories: governmental and proprietary funds.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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**Governmental Funds**

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

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

**Proprietary Funds**

The Educational Service Center's proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the Educational Service Center reports the proprietary fund using the accrual basis of accounting.

**Notes to the Basic Financial Statements**

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the Educational Service Center's net assets for 2012 compared to fiscal year 2011:

Table 1  
**Net Assets at Year End**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b><u>Assets:</u></b>		
Current and Other Assets	\$2,624,844	\$2,261,705
Capital Assets, Net	62,924	67,612
<i>Total Assets</i>	<u>2,687,768</u>	<u>2,329,317</u>
<b><u>Liabilities:</u></b>		
Long-Term Liabilities	411,245	384,911
Other Liabilities	1,341,581	1,355,885
<i>Total Liabilities</i>	<u>1,752,826</u>	<u>1,740,796</u>
<b><u>Net Assets:</u></b>		
Invested in Capital Assets, Net of Related Debt	51,706	49,728
Restricted	403,050	7,475
Unrestricted	480,186	531,318
<i>Total Net Assets</i>	<u>\$934,942</u>	<u>\$588,521</u>

Current and other assets increased \$363,139 from fiscal year 2011 due primarily to an increase in equity in pooled cash and cash equivalents and intergovernmental receivable.

Capital assets, net of accumulated depreciation decreased by \$4,688 due to current year depreciation expense for the fiscal year.

Current (other) liabilities decreased \$14,304 due to decreases in intergovernmental payable and matured compensation absences payables.

Long-term liabilities increased by \$26,334 due to an increase in the long-term portion of compensated absences payable.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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

The Educational Service Center's smallest portion is related to amounts invested in capital assets, net of related debt. The Educational Service Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

The remaining balance of \$403,050 of net assets is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2012 and comparisons to fiscal year 2011.

Table 2  
**Net Assets at Year End**

	<b><u>Governmental Activities</u></b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
<b><u>Revenues:</u></b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$5,607,612	\$4,991,726
Operating Grants and Contributions	640,600	852,363
<i>General Revenues:</i>		
Unrestricted Grants and Entitlements	604,754	583,837
Unrestricted Contractual Service Fees	1,809,343	1,878,737
Investment Earnings	2,156	2,748
Miscellaneous	14,147	8,049
<i>Total Revenues</i>	<b><u>8,678,612</u></b>	<b><u>8,317,460</u></b>

(Continued)

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

Table 2  
**Changes in Net Assets**

	<u>2012</u>	<u>2011</u>
<b><u>Expenses:</u></b>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	319,848	295,405
Special	1,470,384	1,254,834
Student Intervention Services	635	70,843
<i>Support Services:</i>		
Pupils	2,060,031	2,147,253
Instructional Staff	2,797,009	2,767,370
Board of Education	14,931	34,759
Administration	1,340,509	1,526,801
Fiscal	194,238	225,482
Operation and Maintenance of Plant	56,490	51,985
Central	76,666	77,745
Interest and Fiscal Charges	1,450	2,064
<i>Total Expenses</i>	<u>8,332,191</u>	<u>8,454,541</u>
<i>Change in Net Assets</i>	346,421	(137,081)
Net Assets-Beginning of Year	<u>588,521</u>	<u>725,602</u>
Net Assets-End of Year	<u><u>\$934,942</u></u>	<u><u>\$588,521</u></u>

The most significant program expenses for the Educational Service Center are Instructional Staff, Pupils, Special Instruction and Administration. These programs account for 92.03 percent of the total governmental activities. Instructional Staff, which represents 33.57 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students. Pupils, which represent 24.72 percent of the total cost, represent costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Special Instruction, which accounts for 17.65 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 16.09 percent of the total, represents costs associated with the overall administrative responsibility for each building and the Educational Service Center as a whole.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

The majority of the funding for the most significant programs indicated above is from charges for services, operating grants and contributions, other grants and entitlements that are not restricted for specific programs, and contractual services. These funding sources account for 99.81 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services, contractual service fees, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Contractual service fees and charges for services made up 85.46 percent and intergovernmental revenue made up 14.35 percent of the total revenue for the governmental activities in fiscal year 2012.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2012, the Educational Service Center received \$3,092,193 through the State's foundation program, which represents 35.63 percent of the total revenue for the governmental activities. The Educational Service Center relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 21.49 percent of governmental activities program expenses. Support services expenses make up 78.49 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2012 compared to fiscal year 2011. That is, it identifies the cost of these services supported by contractual service fees and unrestricted State entitlements.

Table 3  
**Net Cost of Governmental Activities**

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012	2012	2011	2011
<i>Program Expenses:</i>				
Instruction	\$1,790,867	(\$75,145)	\$1,621,082	(\$62,656)
Support Services	6,539,874	2,157,674	6,831,395	2,671,044
Interest and Fiscal Charges	1,450	1,450	2,064	2,064
Total Expenses	<u>\$8,332,191</u>	<u>\$2,083,979</u>	<u>\$8,454,541</u>	<u>\$2,610,452</u>

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$8,678,612 and expenditures of \$8,376,669.

Total governmental funds fund balance increased by \$301,943. The increase in fund balance for the year was most significant in the Capital Projects Fund. The increase in the Capital Projects Fund of \$400,000 is due to a transfer made from the General Fund during the fiscal year 2012.

**Budget Highlights - General Fund**

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

During the course of fiscal year 2012, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

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

For the General Fund, the final budgeted revenue was \$8,364,521 representing no change from the original budgeted revenue. Actual revenues were \$238,610 or 2.85 percent more than the final budgeted amount, due to the District receiving more in Intergovernmental, Tuition and Fees and Charges for Services than expected. For the General Fund, the final budgeted expenditures were \$9,811,229 representing a decrease of \$235,123 or 2.34 percent from the original budgeted expenditures of \$10,046,352. Actual expenditures were less than the final budgeted amount by \$1,314,930 or 13.40 percent due primarily to the Administration expenditures being far less than anticipated.



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2012 the Educational Service Center had \$62,924 invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$179,555. Table 4 shows fiscal year 2012 balances compared to fiscal year 2011.

Table 4

**Capital Assets & Accumulated Depreciation at Year End**

	<b><u>Governmental Activities</u></b>	
	<u>2012</u>	<u>2011</u>
<i>Depreciable Capital Assets:</i>		
Furniture, Fixtures and Equipment	\$242,479	\$230,785
<i>Less Accumulated Depreciation:</i>		
Furniture, Fixtures and Equipment	<u>179,555</u>	<u>163,173</u>
Capital Assets, Net	<u><u>\$62,924</u></u>	<u><u>\$67,612</u></u>

More detailed information pertaining to the Educational Service Center's capital asset activity can be found in Note 7 of the notes to the basic financial statements.

**Debt Administration**

At June 30, 2012, the Educational Service Center had no general obligation debt outstanding, however, capital leases outstanding amounted to \$11,219.

More detailed information pertaining to the Educational Service Center's long-term debt activity can be found in Note 12 of the notes to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
(Unaudited)*

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**Current Issues**

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

As indicated in the preceding financial information, the Educational Service Center relies on the State's foundation program for about fifteen percent of their funding. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2005, the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

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

The State of Ohio is in an economic recession. The state biennium budget that was signed by Governor Kasich made education a priority and education was spared deep budget cuts extended to other state agencies. The budget was balanced assuming approximately \$900 million dollars of revenue would be generated by the placement of video lottery terminals in Ohio's seven race tracks. The placement of these machines has been blocked; therefore, this revenue will not be generated during the current budget. Legislation has been proposed that would "freeze" a 4.2% Ohio Income Tax rate reduction in the current taxing year. This revenue would be used to replace the funds proposed from video lottery terminals. If the rate reduction is not approved, it is inevitable that additional state budget reductions will occur. Education funding will not be spared if additional state budget cuts are required. The District will continue to rely on conservative financial planning and cost containment while pursuing new revenue sources.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Teresa Thomas, Treasurer of Fairfield County Educational Service Center, 955 Liberty Drive, Lancaster, Ohio 43130.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Net Assets*

*June 30, 2012*

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	<u>Governmental Activities</u>
<b><u>Assets:</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$1,816,121
Cash and Cash Equivalents With Fiscal Agents	110,082
Intergovernmental Receivable	693,517
Materials and Supplies Inventory	5,124
Depreciable Capital Assets, Net	<u>62,924</u>
<i>Total Assets</i>	<u>2,687,768</u>
<b><u>Liabilities:</u></b>	
Accounts Payable	15,615
Accrued Wages and Benefits	800,201
Intergovernmental Payable	242,255
Claims Payable	283,510
<i>Long-Term Liabilities:</i>	
Due within One Year	83,041
Due in More Than One Year	<u>328,204</u>
<i>Total Liabilities</i>	<u>1,752,826</u>
<b><u>Net Assets:</u></b>	
Invested in Capital Assets, Net of Related Debt	51,706
<i>Restricted for:</i>	
Capital Outlay	400,000
Other Purposes	3,050
Unrestricted	<u>480,186</u>
<i>Total Net Assets</i>	<u><u>\$934,942</u></u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2012*

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
<b><u>Governmental Activities:</u></b>				
<i>Instruction:</i>				
Regular	\$319,848	\$219,210	\$52,114	(\$48,524)
Special	1,470,384	1,007,739	586,949	124,304
Student Intervention	635	0	0	(635)
<i>Support Services:</i>				
Pupils	2,060,031	1,411,859	0	(648,172)
Instructional Staff	2,797,009	1,916,952	0	(880,057)
Board of Education	14,931	0	0	(14,931)
Administration	1,340,509	918,729	1,537	(420,243)
Fiscal	194,238	133,123	0	(61,115)
Operation and Maintenance of Plant	56,490	0	0	(56,490)
Central	76,666	0	0	(76,666)
Interest and Fiscal Charges	1,450	0	0	(1,450)
<i>Total Governmental Activities</i>	<u>\$8,332,191</u>	<u>\$5,607,612</u>	<u>\$640,600</u>	<u>(2,083,979)</u>
 <b><u>General Revenues:</u></b>				
				604,754
Grants and Entitlements not Restricted to Specific Programs				1,809,343
Unrestricted Tuition and Fees				2,156
Investment Earnings				14,147
Miscellaneous				14,147
<i>Total General Revenues</i>				<u>2,430,400</u>
Change in Net Assets				346,421
<i>Net Assets at Beginning of Year</i>				<u>588,521</u>
<i>Net Assets at End of Year</i>				<u>\$934,942</u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Balance Sheet  
Governmental Funds  
June 30, 2012*

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b><u>Assets:</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$1,412,114	\$400,000	\$3,050	\$1,815,164
Intergovernmental Receivable	693,517	0	0	693,517
Materials and Supplies Inventory	5,124	0	0	5,124
<i>Total Assets</i>	<u>\$2,110,755</u>	<u>\$400,000</u>	<u>\$3,050</u>	<u>\$2,513,805</u>
<b><u>Liabilities and Fund Balances:</u></b>				
<b><u>Liabilities:</u></b>				
Accounts Payable	\$15,615	\$0	\$0	\$15,615
Accrued Wages and Benefits	800,201	0	0	800,201
Intergovernmental Payable	241,778	0	477	242,255
<i>Total Liabilities</i>	<u>1,057,594</u>	<u>0</u>	<u>477</u>	<u>1,058,071</u>
<b><u>Fund Balances:</u></b>				
Nonspendable	5,124	0	0	5,124
Restricted	0	0	3,050	3,050
Assigned	23,453	400,000	0	423,453
Unassigned	1,024,584	0	(477)	1,024,107
<i>Total Fund Balances</i>	<u>1,053,161</u>	<u>400,000</u>	<u>2,573</u>	<u>1,455,734</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,110,755</u>	<u>\$400,000</u>	<u>\$3,050</u>	<u>\$2,513,805</u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Reconciliation of Total Governmental Fund Balances to*

*Net Assets of Governmental Activities*

*June 30, 2012*

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<b>Total Governmental Funds Balances</b>		\$1,455,734
<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.		62,924
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Compensated absences	(400,026)	
Capital leases	<u>(11,219)</u>	
Total liabilities not reported in the funds		(411,245)
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		<u>(172,471)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$934,942</u></u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2012*

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b><u>Revenues:</u></b>				
Intergovernmental	\$1,167,622	\$0	\$77,732	\$1,245,354
Interest	2,156	0	0	2,156
Tuition and Fees	6,532,788	0	0	6,532,788
Charges for Services	884,167	0	0	884,167
Miscellaneous	14,147	0	0	14,147
<i>Total Revenues</i>	<u>8,600,880</u>	<u>0</u>	<u>77,732</u>	<u>8,678,612</u>
<b><u>Expenditures:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	269,336	0	52,091	321,427
Special	1,454,690	0	25,645	1,480,335
Student Intervention	732	0	0	732
<i>Support Services:</i>				
Pupils	2,070,062	0	18	2,070,080
Instructional Staff	2,816,312	0	4,005	2,820,317
Board of Education	14,979	0	0	14,979
Administration	1,331,413	0	1,493	1,332,906
Fiscal	193,913	0	0	193,913
Operation and Maintenance of Plant	56,490	0	0	56,490
Central	77,375	0	0	77,375
<i>Debt Service:</i>				
Principal Retirement	6,665	0	0	6,665
Interest and Fiscal Charges	1,450	0	0	1,450
<i>Total Expenditures</i>	<u>8,293,417</u>	<u>0</u>	<u>83,252</u>	<u>8,376,669</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>307,463</u>	<u>0</u>	<u>(5,520)</u>	<u>301,943</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Transfers In	0	400,000	0	400,000
Transfers Out	(400,000)	0	0	(400,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(400,000)</u>	<u>400,000</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(92,537)	400,000	(5,520)	301,943
<i>Fund Balances at Beginning of Year</i>	<u>1,145,698</u>	<u>0</u>	<u>8,093</u>	<u>1,153,791</u>
<i>Fund Balances at End of Year</i>	<u>\$1,053,161</u>	<u>\$400,000</u>	<u>\$2,573</u>	<u>\$1,455,734</u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2012*

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**Net Change in Fund Balances - Total Governmental Funds** \$301,943

*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 depreciation exceeded capital outlay in the current period. (4,688)

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 6,665

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:  
    Increase in compensated absences (32,999)

The internal service funds used by management to charge the cost of insurance to individual funds and account for rotary services are not reported in the government-wide statement of activities. Governmental expenditures and the related internal service funds revenue are eliminated. The net revenue (expense) of the internal service funds is allocated among activities. 75,500

*Change in Net Assets of Governmental Activities* \$346,421

See accompanying notes to the basic financial statements and accountant's report.



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**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Net Assets*

*Proprietary Fund*

*June 30, 2012*

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	<u>Governmental Activities</u>
	<u>Internal Service</u>
<b><u>Assets:</u></b>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$957
Cash and Cash Equivalents with Fiscal Agents	<u>110,082</u>
<i>Total Assets</i>	<u>111,039</u>
<b><u>Liabilities:</u></b>	
<i>Current Liabilities:</i>	
Claims Payable	<u>283,510</u>
<i>Total Liabilities</i>	<u>283,510</u>
<b><u>Net Assets:</u></b>	
Unrestricted	<u>(172,471)</u>
<i>Total Net Assets</i>	<u><u>(\$172,471)</u></u>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2012*

	Governmental Activities
	Internal Service
<b><u>Operating Revenues:</u></b>	
Charges for Services	\$1,672,389
<i>Total Operating Revenues</i>	\$1,672,389
<b><u>Operating Expenses:</u></b>	
Purchased Services	72,797
Claims	1,524,092
<i>Total Operating Expenses</i>	1,596,889
<i>Operating Income</i>	75,500
<i>Net Assets at Beginning of Year</i>	(247,971)
<i>Net Assets at End of Year</i>	(\$172,471)

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Cash Flows*

*Proprietary Fund*

*For the Fiscal Year Ended June 30, 2012*

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	<u>Governmental Activities</u>
	<u>Internal Service</u>
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>	
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Interfund Services Provided	\$1,672,389
Cash Payments for Goods and Services	(72,797)
Cash Payments for Claims	(1,497,996)
	<hr/>
<i>Net Cash from Operating Activities</i>	101,596
	<hr/>
<i>Net Increase in Cash and Cash Equivalents</i>	101,596
	<hr/>
<i>Cash and Cash Equivalents at Beginning of Year</i>	9,443
	<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	\$111,039
	<hr/> <hr/>
<b><u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u></b>	
Operating Income	\$75,500
	<hr/>
<b><u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u></b>	
<i>Increase in Liabilities:</i>	
Claims Payable	26,096
	<hr/>
<i>Net Cash from Operating Activities</i>	\$101,596
	<hr/> <hr/>

See accompanying notes to the basic financial statements and accountant's report.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**Description of the Educational Service Center**

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

The Fairfield County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 56 classified and 76 certified employees providing educational service to school districts.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For Fairfield County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center is associated with five organizations. Four are jointly governed organizations, and one is a insurance purchasing pool. These organizations are the Metropolitan Educational Council (MEC), the South Central Ohio Insurance Consortium, Fairfield County Council for Educational Collaboration, Eastland-Fairfield Career and Technical Schools and the Ohio School Boards Association Worker’s Compensation Group Rating Plan. Information about these organizations is presented in Note 16 and Note 17 to the basic financial statements.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**Governmental Funds**

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

The following are the Educational Service Center's major governmental funds:

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

**Capital Projects**- This fund is used to accumulate money for capital projects.

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

**Proprietary Fund**

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center, or to other governments, on a cost reimbursement basis. The internal service fund of the Educational Service Center account for rotary services and a self-insurance program which provides medical and dental benefits to employees.

**C. Measurement Focus**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: grants, interest, contractual service fees and charges for services.

**Expenses/Expenditures**

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

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

**E. Cash and Cash Equivalents**

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



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

During fiscal year 2012, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$2,156, which includes \$253 assigned from other Educational Service Center funds.

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

**F. Inventory**

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

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

**G. Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**H. Compensated Absences**

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

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid. The Educational Service Center did not have such liabilities within the funds as of June 30, 2012.

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

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

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

**J. Net Assets**

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

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

The Educational Service Center reports \$403,050 at fiscal year end in restricted net assets, none of which is restricted by enabling legislation.

**K. Fund Balance Reserves**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

**Nonspendable** – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

**Restricted** – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

**Committed** – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the Educational Service Center’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** – amounts constrained by the Educational Service Center’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amount to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

**Unassigned** – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Educational Service Center considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the Educational Service Center considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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

**L. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. The Educational Service Center made a transfer of \$400,000 from the General Fund to the Capital Projects Fund during the fiscal year ended June 30, 2012.

**M. Estimates**

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

**N. Budgetary Process**

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

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

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 3 –CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2012, the Educational Service Center implemented GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, and GASB No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions”. The implementation of GASB Statement No. 57 and 64 had no effect on the prior period fund balances of the Educational Service Center.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

	<u>General</u>
Budget Basis	(\$293,168)
<i>Adjustments:</i>	
Revenue Accruals	(2,251)
Expenditure Accruals	202,882
Encumbrances	<u>0</u>
GAAP Basis	<u><u>(\$92,537)</u></u>

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

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

At June 30, 2012, the carrying amount of all Educational Service Center deposits was \$1,410,681, which included \$110,082 held with fiscal agent. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2012, \$250,000 of the Educational Service Center's bank balance of \$1,449,728 was covered by Federal Deposit Insurance. The remaining balance of \$1,199,728 was collateralized with securities held by the financial institution or its agency in the Educational Service Center's name.

**Investments:** As of June 30, 2012, the Educational Service Center had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	<u>\$515,522</u>	<u>\$515,522</u>
Totals	<u><u>\$515,522</u></u>	<u><u>\$515,522</u></u>



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 5 - DEPOSITS AND INVESTMENTS** - (Continued)

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

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

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,926,203	\$0
<i>Investments:</i>		
STAR Ohio	(515,522)	515,522
GASB Statement No. 3	\$1,410,681	\$515,522

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2012 consist of intergovernmental. All receivables are considered collectible in full.

The principal item that makes up intergovernmental receivable follows:

<u>Governmental Activities:</u>	
<i>General Fund:</i>	
Contractual Service Fees	\$ 693,517



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 7 - CAPITAL ASSETS**

Capital asset governmental activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	\$230,785	\$14,129	(\$2,435)	\$242,479
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	<u>(163,173)</u>	<u>(18,817)</u>	<u>2,435</u>	<u>(179,555)</u>
Total Net Capital Assets	<u><u>\$67,612</u></u>	<u><u>(\$4,688)</u></u>	<u><u>\$0</u></u>	<u><u>\$62,924</u></u>

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Special	\$8,897
<i>Support Services:</i>	
Administration	<u>9,920</u>
Total Depreciation Expense	<u><u>\$18,817</u></u>

**NOTE 8 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the Educational Service Center contracted through commercial carriers. Coverages provided are as follows:

Building Contents	\$352,562
<i>General Liability:</i>	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 8 - RISK MANAGEMENT** - (Continued)

For fiscal year 2012, the Educational Service Center participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The District provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), who then submits payments for actual claims to Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), a third party administrator, who services all claims submitted by employees.

The District was self funded with the South Central Ohio Insurance Consortium effective January 1, 2002.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the District. The cash balance with the fiscal agent at June 30, 2012, was \$110,082. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The member districts are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2012, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 8 - RISK MANAGEMENT** - (Continued)

The claims liability of \$283,510 reported at June 30, 2012 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 as amended by GASB 30 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2011	\$0	\$1,467,365	\$1,209,951	\$257,414
2012	257,414	1,524,092	1,497,996	283,510

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under "Employer/Audit Resources".

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 and .05 percent of the annual covered salary was the portion used to fund pension obligations and death benefits respectively. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers, by the SERS Retirement Board. The Educational Service Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$177,441, \$196,833, and \$164,850, respectively. The Educational Service Center has contributed 55.36 percent of the required contributions for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010, respectively.

**State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org) under "Publications".

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$526,992, \$602,472, and \$555,931, respectively. The Educational Service Center has contributed 83.55 percent of the required contributions for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010, respectively.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, no members of the Educational Service Center's Board have elected Social Security.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**Plan Description** – The Educational Service Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org) under "Employers/Audit Resources".

**Funding Policy** – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$36,372, \$55,803 and \$33,989 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,467, \$1,773 and \$1,372 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 10 - POSTEMPLOYMENT BENEFITS** - (Continued)

**Plan Description** – The Educational Service Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org), under “Publications” or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Educational Service Center’s contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$40,538, \$46,344 and \$42,764, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**NOTE 11 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

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

Personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Twelve Month Employees Vacation Days</u>	<u>Eleven Month Employees Vacation Days</u>
1-5	10	10
6-10	15	10
11-20	20	15
Beyond 20	20	20

Each employee earns sick leave at the rate of one and one-quarter days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis to a maximum of 200 days.

For all employees, retirement severance is paid to each employee retiring from the Educational Service Center at a per diem rate of the annual salary at the time of retirement. The dollar amount of severance pay is calculated based on twenty-five percent of the employees accumulated sick leave at the time of his/her retirement up to a maximum of 40 days.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 12 - LONG-TERM LIABILITIES**

The changes in the Educational Service Center's long-term liabilities during fiscal year 2012 were as follows:

	<u>Principal Outstanding at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2012</u>	<u>Amount Due In One Year</u>
<i><u>Governmental Activities:</u></i>					
Compensated Absences Payable	\$367,027	\$214,888	\$181,889	\$400,026	\$75,700
Capital Leases Payable	<u>17,884</u>	<u>0</u>	<u>6,665</u>	<u>11,219</u>	<u>7,341</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$384,911</u></u>	<u><u>\$214,888</u></u>	<u><u>\$188,554</u></u>	<u><u>\$411,245</u></u>	<u><u>\$83,041</u></u>

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

Capital leases will be paid from the General Fund.

**NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE**

The Educational Service Center leased one copier in December, 2008 with an original cost of \$32,311. This equipment has been capitalized by the Educational Service Center. The obligation has an outstanding balance of \$11,219 at June 30, 2012.

The following is a schedule of the minimum lease payments required for the capital leases and the present value of minimum lease payments as of June 30, 2012:

<u>Fiscal Year Ending June 30,</u>	<u>Capital Leases</u>
2013	\$8,115
2014	<u>4,058</u>
Total Future Minimum Lease Payments	12,173
Less: Interest	<u>(954)</u>
Present Value of Future Minimum Lease	<u><u>\$11,219</u></u>



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 14 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<i>Nonspendable:</i>				
Inventory	\$5,124	\$0	\$0	\$5,124
<i>Restricted:</i>				
<i>Special Revenues:</i>				
State Grants	0	0	3,050	3,050
<i>Assigned:</i>				
Encumbrances	23,453	0	0	23,453
Capital Projects	0	400,000	0	400,000
<i>Unassigned</i>	<u>1,024,584</u>	<u>0</u>	<u>(477)</u>	<u>1,024,107</u>
Total Fund Balances	<u>\$1,053,161</u>	<u>\$400,000</u>	<u>\$2,573</u>	<u>\$1,455,734</u>

**NOTE 15 – ENCUMBRANCE COMMITMENTS**

At June 30, 2012, the Educational Service Center had encumbrance commitments in the Governmental Funds as follows:

<u>Major Funds</u>	
General	\$23,453

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS**

**Metropolitan Educational Council**

The Metropolitan Educational Council (MEC) is a not-for-profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The Educational Service Center does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer services and employee life insurance to the Educational Service Center. The Educational Service Center made payments to MEC of \$1,000 during the year for computer services.



**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
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**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS-** (Continued)

**South Central Ohio Insurance Consortium**

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The Educational Service Center does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than medical and dental claims paid on behalf of the Educational Service Center for its employees.

**Fairfield County Council for Educational Collaboration**

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

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

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

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

The Fairfield County Educational Service Center is a member of the Eastland-Fairfield Career and Technical School District. The Eastland-Fairfield Career and Technical School District has a nine-member board of education. Representatives of the Eastland-Fairfield Career and Technical School District consist of two Educational Service Centers board members who serve for two years, then the other three Educational Service Center board members which serve for the next two years. Eastland-Fairfield Career and Technical School District alternates this schedule with the Franklin County Educational Service Center. The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland-Fairfield Career and Technical School District. The Educational Service Center made no payments to the Eastland-Fairfield Career and Technical School District during the year.

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012*

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**NOTE 17 - INSURANCE PURCHASING POOL**

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

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

**NOTE 18 - CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2012.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER  
FAIRFIELD COUNTY  
SUPPLEMENTARY INFORMATION  
*FOR THE YEAR ENDED JUNE 30, 2012*

**FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER**

*Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b><u>Revenues:</u></b>				
Intergovernmental	\$1,076,655	\$1,076,655	\$1,167,622	\$90,967
Interest	3,500	3,500	2,156	(1,344)
Tuition and Fees	6,438,646	6,438,646	6,532,788	94,142
Charges for Services	839,920	839,920	886,418	46,498
Miscellaneous	5,800	5,800	14,147	8,347
<i>Total Revenues</i>	<u>8,364,521</u>	<u>8,364,521</u>	<u>8,603,131</u>	<u>238,610</u>
<b><u>Expenditures:</u></b>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	246,905	265,281	268,381	(3,100)
Special	1,614,659	1,674,047	1,591,059	82,988
Student Intervention	12,377	12,522	10,248	2,274
<i>Support Services:</i>				
Pupils	2,166,687	2,223,410	2,070,946	152,464
Instructional Staff	3,077,579	3,123,325	2,806,523	316,802
Board of Education	41,360	42,664	18,647	24,017
Administration	2,535,511	2,117,692	1,402,352	715,340
Fiscal	211,062	211,976	194,233	17,743
Operation and Maintenance of Plant	56,864	56,864	56,490	374
Central	83,348	83,448	77,420	6,028
<i>Total Expenditures</i>	<u>10,046,352</u>	<u>9,811,229</u>	<u>8,496,299</u>	<u>1,314,930</u>
<i>Excess of Revenues (Under) Expenditures</i>	(1,681,831)	(1,446,708)	106,832	1,553,540
<b><u>Other Financing Uses:</u></b>				
Transfers Out	0	(400,000)	(400,000)	0
Net Change in Fund Balances	(1,681,831)	(1,846,708)	(293,168)	1,553,540
<i>Fund Balance at Beginning of Year</i>	1,664,645	1,664,645	1,664,645	0
<i>Prior Year Encumbrances Appropriated</i>	17,186	17,186	17,186	0
<i>Fund Balance at End of Year</i>	<u>\$0</u>	<u>(\$164,877)</u>	<u>\$1,388,663</u>	<u>\$1,553,540</u>

See accompanying notes to the basic financial statements and accountant's report.

**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated November 13, 2012. 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**

Management of the Fairfield County Educational Service Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fairfield County Educational Service Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Fairfield County Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 we must report under *Government Auditing Standard*.

This report is intended solely for the information and use of management, the Center's Board of Education, and Auditor of State and others within the government. We intend it for no one other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
November 13, 2012



# Dave Yost • Auditor of State

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

FAIRFIELD COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 5, 2013