



**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Licking County Educational Service Center
Licking County
675 Price Road
Newark, Ohio 43055

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 Licking County Educational Service Center, Licking County, Ohio (the Center), as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, during the year ended June 30, 2005, the Center implemented Governmental Accounting Standards Board Technical Bulletin 2004-002, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 16, 2005

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

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

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities increased \$241,609.
- General revenues accounted for \$703,902 in revenue or 9 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,322,408, 91 percent of total revenues of \$8,026,310.
- Total assets of governmental activities increased \$304,905 due to an increase in intergovernmental receivables of \$218,077. Intergovernmental receivables increased due to the Educational Service Center acting as fiscal agent for the High Schools that Work Program. During fiscal year 2005, the Educational Service Center was allocated \$854,750 in state grant monies for the High Schools that Work Program.
- The Educational Service Center had \$7,784,701 in expenses related to governmental activities; \$7,322,408 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues of \$703,902 were adequate to provide for the remainder of these activities.
- The Educational Service Center's major funds are the general fund and the miscellaneous state grants special revenue fund. The general fund had \$6,723,416 in revenues and \$6,374,244 in expenditures. The general fund's balance increased \$349,172. The miscellaneous state grants special revenue fund had \$906,267 in revenues and \$839,569 in expenditures. The miscellaneous state grants special revenue fund's balance increased \$66,698.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Licking 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 and conditions.

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. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY

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

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting 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.

These two statements report the Educational Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's activities are reported as governmental including instruction and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 8. 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 the miscellaneous state grants special revenue fund.

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

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table I provides a summary of the Educational Service Center's net assets for 2005 compared to 2004.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

**Table I
Net Assets**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	\$2,676,856	\$2,364,029
Capital Assets	<u>200,276</u>	<u>208,198</u>
Total Assets	<u>2,877,132</u>	<u>2,572,227</u>
Liabilities		
Long-Term Liabilities	(247,904)	(198,012)
Other Liabilities	<u>(667,771)</u>	<u>(654,367)</u>
Total Liabilities	<u>(915,675)</u>	<u>(852,379)</u>
Net Assets		
Invested in Capital Assets, Net of Debt	177,433	174,933
Restricted	118,907	43,624
Unrestricted	<u>1,665,117</u>	<u>1,501,291</u>
Total Net Assets	<u>\$1,961,457</u>	<u>\$1,719,848</u>

Total assets increased \$304,905. The majority of the increase was due to an increase in intergovernmental receivables of \$218,077. During fiscal year 2005, the Educational Service Center acted as fiscal agent for the High Schools that Work Program, a state subsidized grant. The Educational Service Center was allocated a total of \$854,750 in state grant monies on behalf of local school districts in the northeast and southeast regions. \$194,267 of the High Schools that Work grant monies for fiscal year 2005 was received shortly after fiscal year end. In addition, intergovernmental receivables increased due to intergovernmental revenues received from Northridge Local School District in the amount of \$114,051 in August 2005 for IDEA support and professional development.

Total liabilities increased \$63,296. This increase was primarily due to an increase in matured compensated absences payable of \$11,595 and an increase in compensated absences payable of \$60,314. Compensated absences payable increased due to additional employees becoming probable to retire.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005 and comparisons to fiscal year 2004.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

**Table 2
Changes in Net Assets**

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues		
Charges for Services	\$4,533,512	\$4,383,211
Operating Grants and Contributions	2,788,896	1,841,454
Total Program Revenues	<u>7,322,408</u>	<u>6,224,665</u>
General Revenue		
Grants and Entitlements	660,706	640,691
Investment Earnings	22,718	6,648
Miscellaneous	20,478	2,000
Total General Revenues	<u>703,902</u>	<u>649,339</u>
Total Revenues	<u>8,026,310</u>	<u>6,874,004</u>
Program Expenses		
Instruction		
Regular	18,153	18,609
Special	1,900,717	1,761,273
Support Services		
Pupil	1,131,770	1,026,643
Instructional Staff	2,875,985	2,745,783
Board of Education	13,617	9,800
Administration	507,820	516,451
Fiscal	278,549	197,609
Business	11,490	9,855
Operation and Maintenance of Plant	102,759	123,672
Pupil Transportation	0	266
Central	143,606	87,685
Intergovernmental	798,134	0
Interest and Fiscal Charges	2,101	2,938
Total Expenses	<u>7,784,701</u>	<u>6,500,584</u>
Increase (Decrease) in Net Assets	<u>\$241,609</u>	<u>\$373,420</u>

The majority of the increase in net assets of \$241,609 is due to an increase in operating grants and contributions of \$947,442. This increase is primarily due to the Educational Service Center acting as administrative agent for an \$854,750 High Schools that Work Program state grant. In addition, charges for services increased \$150,301 due to the Educational Service Center providing additional special education programs and services to local school districts.

The increase in operating grants and contributions and charges for services is offset by an increase in special education expenses of \$139,444 and intergovernmental expenses of \$798,134. The increase in special education expenses is due to the Educational Service Center providing additional special education services to local school districts. The increase in intergovernmental expenses is due to the on behalf expenses related to the High Schools that Work Program. During fiscal year 2005, the Educational Service Center made \$798,134 in on behalf payments for school districts through the High Schools that Work program.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The Educational Service Center relies heavily upon special education programs and services provided to local school districts. As long as the charges for services do not exceed the local school districts' ability or willingness to continue to purchase special education services, revenues should continue to increase.

The Statement of Activities shows the cost of program services and the charges for services and grants and contributions, offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements.

**Table 3
Governmental Activities**

	2005 Total Cost of Services	2005 Net Cost of Services	2004 Total Cost of Services	2004 Net Cost of Services
Program Expenses				
Instruction:				
Regular	\$18,153	\$9,210	\$18,609	\$3,813
Special	1,900,717	(663,071)	1,761,273	(566,393)
Support Services:				
Pupil	1,131,770	464,258	1,026,643	439,380
Instructional Staff	2,875,985	(121,007)	2,745,783	(130,479)
Board of Education	13,617	13,617	9,800	9,800
Administration	507,820	341,747	516,451	408,248
Fiscal	278,549	228,433	197,609	191,927
Business	11,490	11,490	9,855	9,855
Operation and Maintenance of Plant	102,759	102,759	123,672	75,249
Pupil Transportation	0	0	266	266
Central	143,606	135,449	87,685	80,231
Intergovernmental	798,134	(62,693)	0	0
Interest and Fiscal Charges	2,101	2,101	2,938	2,938
Totals	\$7,784,701	\$462,293	\$6,500,584	\$524,835

Special instruction programs comprise approximately 24 percent of total governmental program expenses while support services comprise approximately 65 percent of total governmental program expenses. Of the support services expenses, approximately 22 percent is for pupils, 57 percent for instructional staff, and 10 percent for administration. Intergovernmental expenses comprise approximately 10 percent of total governmental program expenses. The difference in support service expenses to instruction expenses and intergovernmental expenses is based upon the charges for the service of one on one aides for special education students and instructional expenses related to the High Schools that Work Program.

The Educational Service Center's Major Funds

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8,165,804 and expenditures of \$7,726,957.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

General Fund Budgeting Highlights

Under Ohio law Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2005 a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the Educational Service Center had \$200,276 invested in furniture, fixtures, equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004.

**Table 4
Capital Assets at June 30, 2005
(Net of Depreciation)**

	<u>Government Activities</u>	
	<u>2005</u>	<u>2004</u>
Furniture, Fixtures, and Equipment	\$197,919	\$207,602
Vehicles	2,357	596
Totals	<u>\$200,276</u>	<u>\$208,198</u>

See Note 8 for more detailed information of the Educational Service Center's capital assets.

Debt

At June 30, 2005, the Educational Service Center had \$22,843 in capital leases outstanding. See Note 14 for more detailed information of the Educational Service Center's debt.

Economic Factors

The Licking County Educational Service Center's net assets increased by \$241,609, however, as the preceding information shows, the Educational Service Center relies heavily on the special education services it provides to its local school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the local school districts who contract for special education services with the Educational Service Center will continue to have an impact on the increase or decrease in revenues of the Educational Service Center.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, districts, 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 receives. If you have any questions about this report or need additional financial information contact Ellen Towner, Treasurer at the Licking County Educational Service Center, 675 Price Road, Newark, Ohio 43055. You may also E-mail the treasurer at etowner@laca.org.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$867,846
Prepaid Items	47,950
Accounts Receivable	6,918
Intergovernmental Receivable	1,751,694
Materials and Supplies Inventory	2,448
Depreciable Capital Assets, Net	200,276
<i>Total Assets</i>	2,877,132
Liabilities	
Matured Interest Payable	80
Matured Capital Leases Payable	373
Accounts Payable	16,708
Accrued Wages and Benefits Payable	500,864
Matured Compensated Absences Payable	11,595
Accrued Interest Payable	39
Intergovernmental Payable	138,112
Long-Term Liabilities:	
Due Within One Year	128,618
Due In More Than One Year	119,286
<i>Total Liabilities</i>	915,675
Net Assets	
Invested in Capital Assets, Net of Related Debt	177,433
Restricted for Other Purposes	118,907
Unrestricted	1,665,117
<i>Total Net Assets</i>	\$1,961,457

See accompanying notes to the basic financial statements

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$18,153	\$0	\$8,943	(\$9,210)
Special	1,900,717	1,653,552	910,236	663,071
Support Services:				
Pupil	1,131,770	579,842	87,670	(464,258)
Instructional Staff	2,875,985	2,184,291	812,701	121,007
Board of Education	13,617	0	0	(13,617)
Administration	507,820	115,827	50,246	(341,747)
Fiscal	278,549	0	50,116	(228,433)
Business	11,490	0	0	(11,490)
Operation and Maintenance of Plant	102,759	0	0	(102,759)
Central	143,606	0	8,157	(135,449)
Intergovernmental	798,134	0	860,827	62,693
Interest and Fiscal Charges	2,101	0	0	(2,101)
Totals	\$7,784,701	\$4,533,512	\$2,788,896	(462,293)

General Revenues

Grants and Entitlements not Restricted to Specific Programs	660,706
Investment Earnings	22,718
Miscellaneous	20,478
Total General Revenues	703,902
<i>Change in Net Assets</i>	241,609
<i>Net Assets Beginning of Year - See Note :</i>	<u>1,719,848</u>
<i>Net Assets End of Year</i>	<u><u>\$1,961,457</u></u>

See accompanying notes to the basic financial statements

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$759,161	\$2,328	\$106,357	\$867,846
Accounts Receivable	5,918	0	1,000	6,918
Interfund Receivable	127,376	0	0	127,376
Intergovernmental Receivable	1,536,942	194,267	20,485	1,751,694
Prepaid Items	46,197	724	1,029	47,950
Materials and Supplies Inventory	2,448	0	0	2,448
Total Assets	\$2,478,042	\$197,319	\$128,871	\$2,804,232
Liabilities				
Matured Interest Payable	\$80	\$0	\$0	\$80
Matured Capital Leases Payable	373	0	0	373
Matured Compensated Absences Payable	11,595	0	0	11,595
Accounts Payable	8,558	5,471	2,679	16,708
Accrued Wages and Benefits	477,363	1,092	22,409	500,864
Interfund Payable	0	127,376	0	127,376
Deferred Revenue	1,237,852	0	0	1,237,852
Intergovernmental Payable	124,797	3,712	9,603	138,112
Total Liabilities	1,860,618	137,651	34,691	2,032,960
Fund Balances				
Reserved for Encumbrances	51,257	61,420	4,167	116,844
Unreserved, Undesignated, Reported in:				
General Fund	566,167		0	566,167
Special Revenue Funds	0	(1,752)	90,013	88,261
Total Fund Balances	617,424	59,668	94,180	771,272
Total Liabilities and Fund Balances	\$2,478,042	\$197,319	\$128,871	\$2,804,232

See accompanying notes to the basic financial statements

LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Governmental Fund Balances		\$771,272
<i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		200,276
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Tuition and Fees		1,237,852
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Accrued Interest Payable	(39)	
Capital Leases Payable	(22,843)	
Compensated Absences	(225,061)	
		<u>(247,943)</u>
Net Assets of Governmental Activities		<u><u>\$1,961,457</u></u>

See accompanying notes to the basic financial statements

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

	General	Miscellaneous State Grants	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$2,019,339	\$905,517	\$500,335	\$3,425,191
Interest	22,718	0	0	22,718
Tuition and Fees	4,652,363	0	0	4,652,363
Contributions and Donations	10,268	0	34,786	45,054
Miscellaneous	18,728	750	1,000	20,478
Total Revenues	6,723,416	906,267	536,121	8,165,804
Expenditures				
Current:				
Instruction:				
Regular	0	0	15,967	15,967
Special	1,758,505	0	140,048	1,898,553
Support Services:				
Pupils	1,046,074	0	79,947	1,126,021
Instructional Staff	2,592,236	3,462	239,635	2,835,333
Board of Education	13,617	0	0	13,617
Administration	481,203	0	16,137	497,340
Fiscal	230,808	37,973	8,542	277,323
Business	11,490	0	0	11,490
Operation and Maintenance of Plant	95,267	0	0	95,267
Central	133,113	0	12,206	145,319
Intergovernmental	0	798,134	0	798,134
Debt Service:				
Principal Retirement	9,907	0	515	10,422
Interest and Fiscal Charges	2,024	0	147	2,171
Total Expenditures	6,374,244	839,569	513,144	7,726,957
Net Change in Fund Balances	349,172	66,698	22,977	438,847
Fund Balances Beginning of Year - Restated (Note 3)	268,252	(7,030)	71,203	332,425
Fund Balances End of Year	\$617,424	\$59,668	\$94,180	\$771,272

See accompanying notes to the basic financial statements

LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY

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

Net Change in Fund Balances - Total Governmental Funds		\$438,847
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Asset Additions	37,764	
Depreciation Expense	<u>(41,153)</u>	(3,389)
 Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of capital assets.		
		(4,533)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Tuition and Fees	(118,851)	
Grants	<u>(20,643)</u>	(139,494)
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		10,422
 In the statement of activities interest is accrued on outstanding leases, whereas in governmental funds, interest is expended when due.		
		70
 Some expenses 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.		
Compensated Absences Payable		<u>(60,314)</u>
 <i>Change in Net Assets of Governmental Activities</i>		 <u><u>\$241,609</u></u>
 See accompanying notes to the basic financial statements		

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

NOTE 1 - REPORTING ENTITY

The Licking County Educational Service Center (the Educational Service Center) is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Licking Heights, Lakewood, Licking Valley, North Fork, Northridge, and Southwest Licking Local School Districts, Granville Exempted Village School District, Newark and Heath City School Districts, and the Career and Technology Education Centers of Licking County. 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 Licking 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 has 73 support staff employees and 73 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

B. Component Units

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 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. No separate governmental units meet the criteria for inclusion as a component unit.

The Educational Service Center participates in the Licking Area Computer Association, the Career and Technology Education Centers of Licking County, the Central Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Metropolitan Educational Council, the School Study Council of Ohio, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan, which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 15 and 16.

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 more significant of the Educational Service Center's accounting policies are described below.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis Of Presentation

The Educational Service Center's basic financial statements consist of government-wide 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, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal 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 and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center 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. The Educational Service Center's major funds are 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 a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

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

General Fund The general 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.

Miscellaneous State Grants Fund The miscellaneous state grants special revenue fund of the Educational Service Center is used to account state grant monies received for the Parent Mentor Program, the Reading Recovery Program, and the High Schools that Work Program. During fiscal year 2005, \$854,750 in on behalf grant money was received by the Educational Service Center for the northeast and southeast region school districts for the High Schools that Work program.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Educational Service Center has no proprietary funds.

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has no fiduciary funds.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (revenues) and decreases (expenses) in total 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 balances 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.

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 Non-Exchange 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 60 days of fiscal year end.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the modified accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specific 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 fiscal year-end: charges for services, tuition, grants, and student fees.

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

Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

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

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

The purpose of 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 governmental funds.

E. Budgetary Data

No budgetary information is presented because the Board did not approve estimated revenues or adopt appropriations. Under Ohio law Educational Service Centers are no longer required to prepare a budget.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$22,718, which includes \$2,924 assigned from other Educational Service Center funds.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Receivables and Payables

Receivables and payables to be recorded on the Educational Service Center's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectibility.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/ expended when used. Inventories consist of consumable supplies.

J. Capital Assets

The Educational Service Center's only capital assets are general capital assets. 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 fiscal year. Donated fixed 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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	5-30 years
Vehicles	30 years

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable 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 three months 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 payment 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 all employees after eleven years of current service with the Educational Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent 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 funds from which these payments will be made.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance Reserves

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

N. 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of net assets reports \$118,907 of restricted net assets, of which none are restricted by enabling legislation.

Net assets restricted for other purposes include state and federal grants restricted to expenditures for specified purposes.

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

O. Interfund Transactions

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

All other interfund transfers are reported as operating transfers.

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

Q. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2005, this included the High Schools that Work Program special revenue fund.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2005, the Educational Service Center has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", GASB Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers", and early-implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 5 "Deposits and Investments" for the required disclosures.

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans. The implementation affected the fund balances of governmental funds, but had no effect on net assets. The effect of the implementation of this technical bulletin is presented below.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE
(Continued)

	General	Miscellaneous State Grants	Other Governmental	Total Governmental Funds
Fund Balances (Deficit), June 30, 2004	\$310,185	(\$2,590)	\$75,104	\$382,699
GASB Technical Bulletin 2004-02 Restatement	(41,933)	(4,440)	(3,901)	(50,274)
Restated Fund Balances (Deficit), June 30, 2004	\$268,252	(\$7,030)	\$71,203	\$332,425

In fiscal year 2005, the Educational Service Center received additional program payments in the general fund from local school districts for psychologists services, work study services, and special education aides services; therefore, the governmental activities net asset balance was restated at June 30, 2004.

	General
Governmental Activities Net Assets, June 30, 2004	\$1,595,390
Intergovernmental Restatement	124,458
Adjusted Governmental Activities Net Assets, June 30, 2004	\$1,719,848

NOTE 4 – ACCOUNTABILITY

The following fund had a deficit fund balance at June 30, 2005.

<u>Special Revenue Fund:</u>	<u>Excess</u>
Public Preschool	\$1,917

The deficit in the special revenue fund was the result of expenditures being made in excess of revenues. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the Educational Service Center are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands on the treasury. Active 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.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States; or any book entry, zero-coupon United States treasury security that is a direct obligation of 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;
4. Bonds and obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Cash on Hand

At year end, the Educational Service Center had \$10 in undeposited cash on hand which is included on the financial statements of the Educational Service Center as part of "equity in pooled cash and cash equivalents".

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$861,501 of the Educational Service Center's bank balance of \$961,501 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the Educational Service Center had the following investment, which is in an internal investment pool:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	<u>\$317,708</u>	Average 60 days
Totals	<u><u>\$317,708</u></u>	

Interest Rate Risk

The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to withdraw funds from approved public depositories or sell negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that would further limit its investment choices.

NOTE 6 - STATE FUNDING

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - STATE FUNDING (Continued)

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

The Educational Service Center may contract with city, exempted village, local, joint vocational, or cooperative education school districts to provide special education and related services or career-technical education services. The individual boards of education pay the costs for these services directly to the Educational Service Center.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of charges for services, excess costs, and intergovernmental grants. All receivables are considered collectible in full due the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Excess Costs	\$1,331,006
Public Preschool Grant	20,485
High Schools That Work Grant	194,267
CAFS	46,577
Comprehensive School Reform - Newark CSD	40,000
IDEA Support - Northridge LSD	75,803
Professional Development - Northridge LSD	38,248
Other	5,308
Total	<u><u>\$1,751,694</u></u>

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 – CAPITAL ASSETS

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

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Depreciable Capital Assets				
Furniture, Fixtures, and Equipment	\$362,931	\$35,169	(\$6,939)	\$391,161
Vehicles	15,311	2,595	(15,311)	2,595
Total at Historical Cost	<u>378,242</u>	<u>37,764</u>	<u>(22,250)</u>	<u>393,756</u>
Less Accumulated Depreciation				
Furniture, Fixtures, and Equipment	(155,329)	(40,617)	2,704	(193,242)
Vehicles	(14,715)	(536)	15,013	(238)
Total Accumulated Depreciation	<u>(170,044)</u>	<u>(41,153)</u>	<u>17,717</u>	<u>(193,480)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>208,198</u>	<u>(3,389)</u>	<u>(4,533)</u>	<u>200,276</u>
Governmental Activities Capital Assets, Net	<u>\$208,198</u>	<u>(\$3,389)</u>	<u>(\$4,533)</u>	<u>\$200,276</u>

The Educational Service Center does not capitalize buildings because they are provided office space through the Licking County Commissioners.

- Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,186
Special	13,185
Support Services:	
Pupil	1,915
Instructional Staff	5,364
Administration	9,974
Fiscal	547
Operation and Maintenance	7,492
Central	<u>490</u>
Total Depreciation Expense	<u>\$41,153</u>

NOTE 9 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP. (See Note 16)

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - RISK MANAGEMENT (Continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Personal Property	\$574,800
Equipment (\$1,000 deductible)	100,000
Underground Water Seepage (\$1,000 deductible)	25,000
Accounts Receivable (\$1,000 deductible)	250,000
Extra Expense (\$1,000 deductible)	50,000
Automobile Liability (\$250 deductible comprehensive and \$500)	1,000,000
Uninsured Motorists (\$250 deductible comprehensive and \$500)	1,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability	
Errors and Omissions	
Per Occurrence (\$2,500 deductible)	1,000,000
Aggregate Limit	2,000,000
Employment Practices	
Per Occurrence (\$2,500 deductible)	1,000,000
Aggregate Limit	2,000,000

Settled claims have not exceeded coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

NOTE 10 - 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$430,966, \$460,424 and \$443,185 respectively; 89.4% has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$8,916 made by the Educational Service Center and \$17,513 made by the plan members.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$171,401, \$122,149 and \$92,271, respectively; 90% has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

NOTE 11 - POST-EMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$33,151 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$88,154.

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

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn twenty to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days.

B. Insurance Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio. The Educational Service Center pays medical and drug monthly premiums of up to \$450 maximum per person. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides dental and prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center pays a dental premium of up to \$73.14 maximum per person for family coverage. The Educational Service Center requires the employees to contribute \$10 for single coverage and \$20 for family coverage towards their total dental premium. The Educational Service Center also provides life insurance in the amount of \$40,000 through the Metropolitan Educational Council at a cost of \$5.60 per employee per month.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

The Educational Service Center has entered into a capitalized lease for photo-copying equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The agreement provides for minimum annual lease payments as follows:

Year Ending June 30,	Total
2006	\$12,590
2007	8,629
2008	3,633
Total minimum lease payments	24,852
Less: Amount representing interest	(2,009)
Present value of minimum lease	\$22,843

Principal payments in fiscal year 2005 totaled \$10,422 in the governmental funds.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

Property under Capital Lease	\$52,176
Less: Accumulated Depreciation	<u>(31,638)</u>
Total June 30, 2005	<u><u>\$20,538</u></u>

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Outstanding 6/30/2004	Additions	Deletions	Outstanding 6/30/2005	Due Within One Year
Compensated Absences	\$164,747	\$176,317	\$116,003	\$225,061	\$117,369
Capital Leases	33,265	0	10,422	22,843	11,249
Total Long-Term Obligations	<u>\$198,012</u>	<u>\$176,317</u>	<u>\$126,425</u>	<u>\$247,904</u>	<u>\$128,618</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the general fund and the special revenue handicapped preschool fund.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Licking Area Computer Association

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services thirteen entities within the boundaries of Licking and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts.

The continued existence of LACA is not dependent on the Educational Service Center's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Educational Service Center's payments to LACA for computer services for fiscal year 2005 were \$30,373. Financial statements for LACA can be obtained from their fiscal agent - the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, OH 43055.

B. Career and Technology Education Centers of Licking County

The Career and Technology Education Centers of Licking County is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three board members from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. The Educational Service Center's payments to the Career and Technology Education Centers of Licking County for services for fiscal year 2005 were \$3,494. To obtain financial information write to the Career and Technology Education Centers of Licking County, Cory Thompson, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. Central Ohio Special Education Regional Resource Center

The Central Ohio Special Education Regional Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. The Educational Service Center has a cooperative agency agreement with COSERRC. There is no financial commitment by the Educational Service Center for its participation in the COSERRC. The Educational Service Center is represented on the governing board by an Educational Service Center member. Nothing was paid to COSERRC during fiscal year 2005. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over a hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various inservice for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Educational Service Center's membership fee was \$300 for fiscal year 2005.

E. Metropolitan Educational Council

The Educational Service Center participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The Educational Service Center does not participate in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county.

Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Educational Service Center's membership payment to MEC for fiscal year 2005 was \$300. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

F. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board). The Council is comprised of 81 member organizations. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts can have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. School districts may elect to be associate members which entitles them to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2005, the Board consisted of fourteen members. In fiscal year 2005, the Educational Service Center obtained active membership privileges and paid a membership fee of \$300.

**LICKING COUNTY EDUCATIONAL SERVICE CENTER
LICKING COUNTY**

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

NOTE 16 - INSURANCE PURCHASING POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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

B. Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 17 - CONTINGENCIES

A. Grants

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 and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

B. Litigation

The Educational Service Center is currently not party to any litigation.

NOTE 18 – INTERFUND BALANCES

At June 30, 2005, the General Fund made an advance for \$127,376 to the Miscellaneous State Grants special revenue fund to support the High Schools that Work program until the remaining grant monies were received.

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Auditor of State Betty Montgomery

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

Licking County Educational Service Center
Licking County
675 Price Road
Newark, Ohio 43055

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 Licking County Educational Service Center, Licking County, Ohio, (the Center), as of and for the year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 16, 2005, wherein we noted the Center implemented Governmental Accounting Standards Board Technical Bulletin 2004-002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 16, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
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Facsimile 614-466-4490

LICKING COUNTY EDUCATIONAL SERVICE CENTER

LICKING 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
FEBRUARY 9, 2006**