



**WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Warren County Educational Service Center
Warren County
416 S. East Street
Lebanon, Ohio 45036

We have audited the accompanying general-purpose financial statements of the Warren County Educational Service Center, Warren County, Ohio, (the Center) as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Educational Service Center, Warren County, Ohio, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, the Center adopted Governmental Accounting Standards Board Statements No. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2001, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

December 11, 2001

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**Warren County Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2001**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,189,339	\$789,551	\$24,435
Receivables:			
Accounts	0	760	0
Intergovernmental	169,765	7,195	0
Prepaid Items	3,953	40	0
Fixed Assets	0	0	0
<u>Other Debits:</u>			
Amount to be Provided from General Government Resources	0	0	0
Total Assets and Other Debits	\$2,363,057	\$797,546	\$24,435
<u>Liabilities</u>			
<u>Fund Equity and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$4,856	\$1,149	\$0
Accrued Wages and Benefits	128,807	64,544	0
Compensated Absences Payable	15,861	327	0
Intergovernmental Payable	8,022	8,719	0
Total Liabilities	157,546	74,739	0
<u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
Fund Balance:			
Reserved for Encumbrances	59,200	276,124	0
Unreserved:			
Undesignated	2,146,311	446,683	24,435
Total Fund Equity and Other Credits	2,205,511	722,807	24,435
Total Liabilities, Fund Equity and Other Credits	\$2,363,057	\$797,546	\$24,435

See accompanying notes to the general purpose financial statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Expendable Trust			
\$18,198	\$0	\$0	\$3,021,523
0	0	0	760
0	0	0	176,960
0	0	0	3,993
0	358,925	0	358,925
0	0	317,819	317,819
<u>\$18,198</u>	<u>\$358,925</u>	<u>\$317,819</u>	<u>\$3,879,980</u>
\$0	\$0	\$0	\$6,005
0	0	0	193,351
0	0	315,584	331,772
0	0	2,235	18,976
0	0	317,819	550,104
0	358,925	0	358,925
0	0	0	335,324
18,198	0	0	2,635,627
18,198	358,925	0	3,329,876
<u>\$18,198</u>	<u>\$358,925</u>	<u>\$317,819</u>	<u>\$3,879,980</u>

Warren County Educational Service Center
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Fund Type Expendable Trust	
<u>Revenues:</u>					
Intergovernmental	\$1,769,158	\$296,809	\$0	\$0	\$2,065,967
Interest	161,460	0	1,369	0	162,829
Tuition and Fees	65	648,325	0	0	648,390
Gifts and Donations	0	15,503	0	10,000	25,503
Customer Services	1,893,551	61,250	0	0	1,954,801
Miscellaneous	63,356	23,923	0	0	87,279
Total Revenues	3,887,590	1,045,810	1,369	10,000	4,944,769
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	9,373	514,826	0	0	524,199
Special	0	25,059	0	0	25,059
Support Services:					
Pupils	829,392	247,600	0	0	1,076,992
Instructional Staff	88,905	166,978	0	0	255,883
Board of Education	16,115	0	0	0	16,115
Administration	1,964,311	397	0	0	1,964,708
Fiscal	199,029	2,159	0	0	201,188
Business	2,406	0	0	0	2,406
Operation and Maintenance of Plant	6,791	0	0	0	6,791
Pupil Transportation	0	111,745	0	0	111,745
Central	285,198	0	0	0	285,198
Non-Instructional Services	0	0	0	5,300	5,300
Total Expenditures	3,401,520	1,068,764	0	5,300	4,475,584
Excess of Revenues Over Expenditures	486,070	(22,954)	1,369	4,700	469,185
<u>Other Financing Sources:</u>					
Proceeds from Sale of Fixed Assets	9,437	0	0	0	9,437
Excess of Revenues and Other Financing Sources Over Expenditures	495,507	(22,954)	1,369	4,700	478,622
Fund Balances at Beginning of Year - Restated (Note 3)	1,710,004	745,761	23,066	13,498	2,492,329
Fund Balances at End of Year	\$2,205,511	\$722,807	\$24,435	\$18,198	\$2,970,951

See accompanying notes to the general purpose financial statements

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Warren County Educational Service Center
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2001

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Intergovernmental	\$1,748,028	\$1,769,158	\$21,130	\$333,850	\$336,130	\$2,280
Interest	164,000	164,399	399	0	0	0
Tuition and Fees	65	65	0	658,810	648,325	(10,485)
Gifts and Donations	0	0	0	4,000	15,503	11,503
Customer Services	1,698,591	1,752,616	54,025	32,540	57,415	24,875
Miscellaneous	78,500	63,134	(15,366)	0	23,500	23,500
Total Revenues	3,689,184	3,749,372	60,188	1,029,200	1,080,873	51,673
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	23,500	16,214	7,286	967,460	534,829	432,631
Special	65	0	65	58,866	58,866	0
Support Services:						
Pupils	879,816	809,415	70,401	363,762	363,762	0
Instructional Staff	145,561	95,011	50,550	213,076	213,076	0
Board of Education	41,888	17,080	24,808	0	0	0
Administration	3,398,128	2,022,494	1,375,634	15,470	15,397	73
Fiscal	302,745	199,582	103,163	10,509	2,159	8,350
Business	13,610	2,415	11,195	0	0	0
Operation and Maintenance of Plant	20,522	9,855	10,667	0	0	0
Pupil Transportation	0	0	0	143,289	143,286	3
Central	318,006	299,231	18,775	0	0	0
Non-Instructional Services	0	0	0	0	0	0
Extracurricular Activities	50	40	10	0	0	0
Capital Outlay	0	0	0	0	0	0
Total Expenditures	5,143,891	3,471,337	1,672,554	1,772,432	1,331,375	441,057
Excess of Revenues Over (Under) Expenditures	(1,454,707)	278,035	1,732,742	(743,232)	(250,502)	492,730
<u>Other Financing Sources (Uses):</u>						
Proceeds from the Sale of Fixed Assets	9,450	9,437	(13)	0	0	0
Refund of Prior Year Expenditures	0	221	221	0	0	0
Other Financing Sources	0	0	0	124,796	99,796	(25,000)
Refund of Prior Year Receipts	0	0	0	(32,697)	(32,697)	0
Advances In	0	20,000	20,000	0	0	0
Advances Out	(265,520)	0	265,520	0	(20,000)	(20,000)
Operating Transfers In	0	0	0	55,238	0	(55,238)
Operating Transfers Out	(1,250)	0	1,250	(85,238)	0	85,238
Other Financing Uses	(93,350)	0	93,350	(28,700)	0	28,700
Total Other Financing Sources (Uses)	(350,670)	29,658	380,328	33,399	47,099	13,700
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,805,377)	307,693	2,113,070	(709,833)	(203,403)	506,430
Fund Balances at						
Beginning of Year	1,705,306	1,705,306	0	469,630	469,630	0
Prior Year Encumbrances Appropriated	100,071	100,071	0	242,203	242,203	0
Fund Balances at End of Year	\$0	\$2,113,070	\$2,113,070	\$2,000	\$508,430	\$506,430

See accompanying notes to the general purpose financial statements

Capital Projects Funds			Expendable Trust Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$2,081,878	\$2,105,288	\$23,410
500	1,406	906	0	0	0	164,500	165,805	1,305
0	0	0	0	0	0	658,875	648,390	(10,485)
0	0	0	10,000	10,000	0	14,000	25,503	11,503
0	0	0	0	0	0	1,731,131	1,810,031	78,900
0	0	0	0	0	0	78,500	86,634	8,134
500	1,406	906	10,000	10,000	0	4,728,884	4,841,651	112,767
0	0	0	0	0	0	990,960	551,043	439,917
0	0	0	0	0	0	58,931	58,866	65
0	0	0	0	0	0	1,243,578	1,173,177	70,401
0	0	0	0	0	0	358,637	308,087	50,550
0	0	0	0	0	0	41,888	17,080	24,808
0	0	0	0	0	0	3,413,598	2,037,891	1,375,707
0	0	0	0	0	0	313,254	201,741	111,513
0	0	0	0	0	0	13,610	2,415	11,195
0	0	0	0	0	0	20,522	9,855	10,667
0	0	0	0	0	0	143,289	143,286	3
0	0	0	0	0	0	318,006	299,231	18,775
0	0	0	23,498	5,300	18,198	23,498	5,300	18,198
0	0	0	0	0	0	50	40	10
23,446	0	23,446	0	0	0	23,446	0	23,446
23,446	0	23,446	23,498	5,300	18,198	6,963,267	4,808,012	2,155,255
(22,946)	1,406	24,352	(13,498)	4,700	18,198	(2,234,383)	33,639	2,268,022
0	0	0	0	0	0	9,450	9,437	(13)
0	0	0	0	0	0	0	221	221
0	0	0	0	0	0	124,796	99,796	(25,000)
0	0	0	0	0	0	(32,697)	(32,697)	0
0	0	0	0	0	0	0	20,000	20,000
0	0	0	0	0	0	(265,520)	(20,000)	245,520
0	0	0	0	0	0	55,238	0	(55,238)
0	0	0	0	0	0	(86,488)	0	86,488
0	0	0	0	0	0	(122,050)	0	122,050
0	0	0	0	0	0	(317,271)	76,757	394,028
(22,946)	1,406	24,352	(13,498)	4,700	18,198	(2,551,654)	110,396	2,662,050
273	273	0	13,498	13,498	0	2,188,707	2,188,707	0
22,673	22,673	0	0	0	0	364,947	364,947	0
\$0	\$24,352	\$24,352	\$0	\$18,198	\$18,198	\$2,000	\$2,664,050	\$2,662,050

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Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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

The Warren County Educational Service Center (the “Educational Service Center”) is located in Lebanon, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren 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.

Reporting Entity

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

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

The Educational Service Center is associated with three organizations. Two are jointly governed organizations, and one is an insurance purchasing pool. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), and the Southwestern Ohio Educational Purchasing Cooperative Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Note 13 and Note 14 to the general purpose financial statements.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

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 Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant Educational Service Center accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Project Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the trust fund).

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The only fiduciary fund type of the Educational Service Center is:

Expendable Trust Fund - The Expendable Trust Fund accounts for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. The expendable trust fund is accounted for in essentially the same manner as governmental funds.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The modified accrual basis of accounting is followed for the governmental funds and the expendable trust fund.

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 thirty one days of year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: interest, tuition, grants, student fees and rentals.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

Appropriations:

The annual appropriation resolution is legally enacted by the Governing Board of the Educational Service Center at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board of the Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were legally enacted, some of which were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device by the Governing Board, during the year for all funds at the object level, consistent with statutory provisions.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances:

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2001, investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$161,460, which includes \$46,543 assigned from other Educational Service Center funds. The capital projects fund also received interest revenue of \$1,369.

For presentation on the combined balance sheet, 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.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

F. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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 zero dollars. The Educational Service Center does not have any infrastructure.

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 capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are not depreciated.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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. 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 vacation time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for certified employees and support staff after twenty years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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 appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than thirty one days after year-end are considered not to have used current available financial resources.

J. 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.

K. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues," - an amendment of GASB No. 33, which changes how the ESC reports certain types of revenues. The effect of these changes on the excess of revenues and other financing sources over (under) expenditures and the effect on opening fund balances follows:

	Governmental Fund Type
	Special Revenue
Excess as previously reported	\$260,595
Restatement:	
Intergovernmental Receivable	108,998
Restated Amount for the year ended June 30, 2000	\$369,593
	Governmental Fund Type
	Special Revenue
Fund Balance at June 30, 2000	\$636,763
Restatement:	
Intergovernmental Receivable	108,998
Restated Amount at July 1, 2000	\$745,761

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types and Expendable Trust Fund

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$495,507	(\$22,954)	\$1,369	\$4,700
Adjustments:				
Revenue Accruals	(137,997)	134,859	37	0
Expenditure Accruals	(3,916)	(14,187)	0	0
Encumbrances	(65,901)	(281,121)	0	0
Advances	20,000	(20,000)	0	0
Budget Basis	<u>\$307,693</u>	<u>(\$203,403)</u>	<u>\$1,406</u>	<u>\$4,700</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Educational Service Center has identified as not required for use within the current two 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 deposits maturing not more than one year from the date of deposit, or by savings accounts, including pass book accounts.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$46,662 and the bank balance was \$120,805. Of the bank balance, \$100,000 was covered by federal depository insurance and \$20,805 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified because they are not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
STAR Ohio	<u>\$2,974,861</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities that use Proprietary Fund Accounting."

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classification of cash and cash equivalents, and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$3,021,523	\$0
Investments:		
STAR Ohio	(2,974,861)	2,974,861
GASB Statement No. 3	\$46,662	\$2,974,861

NOTE 6 - RECEIVABLES

Receivables at June 30, 2001, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
<u>General Fund:</u>	
MRDD and Training Programs	\$169,765
<u>Special Revenue Funds:</u>	
<u>School Bus Driver Training Program</u>	
Pre-Service Classroom Workshop	1,195
<u>Alternative School</u>	
Warren County Auditor's Office	3,000
<u>Miscellaneous State Grants</u>	
Auditor of State	3,000
Total Special Revenue Funds	7,195
Total of all Funds	\$176,960

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 7 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
Furniture and Equipment	\$302,364	\$27,759	\$18,278	\$311,845
Vehicles	47,080	0	0	47,080
Total	<u>\$349,444</u>	<u>\$27,759</u>	<u>\$18,278</u>	<u>\$358,925</u>

NOTE 8 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2001, the Educational Service Center contracted with Nationwide Insurance Company for general liability insurance with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate. Property is protected by Indiana Insurance and holds a \$500 deductible.

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

For fiscal year 2001, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). 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 Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was 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, 2001, 2000, and 1999 were \$42,808, \$52,179, and \$65,746, respectively, equal to the required contributions for each fiscal year.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$186,674, \$108,541, and \$179,531, respectively, equal to the required contributions for each fiscal year.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001 all but one member of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-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 STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$88,425 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3,419 million. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 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.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$102,119.

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 125 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000, (the latest information available), were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. They may also earn vacation bonus days as specified in Board Policy. Vacation days may not be carried over. Employees hired prior to July 1, 1997, who have accumulated vacation days in accordance with the previous Board Policy, will have until July 1, 2003, to use their accumulated vacation days. Effective July 1, 2003, the current policy will prevail for these employees. Effective July 1, 2000, employees are allowed to carryover only ten days if they are twelve-month employees and five days if they are eleven-month employees. New employees hired after July 1, 1997, are not entitled to vacation bonus days. All full-time certificated and classified employees are entitled to three days personal leave per year, which does not accumulate from one year to the next. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Eleven and twelve month certified staff earn three weeks and four weeks respectively. They may also earn vacation bonus days as specified in Board Policy.

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 a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (which is a maximum of 60 days). Compensated absences totaled \$286,138 for the Educational Service Center at June 30, 2001.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 11 - EMPLOYEE BENEFITS (continued)

B. Health Care Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through CoreSource, Inc./ Great American Life Insurance Company.

The Educational Service Center has elected to provide employee health insurance benefits through Anthem Blue Cross and Blue Shield Insurance Company. The employees share the cost of the monthly premium with the Board.

The Educational Service Center also offers universal life insurance and/or disability insurance or tuition reimbursement if eligible employees choose these benefits instead of health insurance. Universal life insurance is offered through Midland Life Insurance Company and disability insurance is offered through Lincoln National Life Insurance Company. Tuition reimbursement is made directly to the employee per Board Policy.

The Educational Service Center provides dental insurance to full-time employees through CoreSource, Inc.

NOTE 12 - LONG-TERM OBLIGATIONS

The change in the ESC's long-term obligations during the fiscal year 2001 were as follows:

	Balance 6/30/00	Additions	Deductions	Balance 6/30/01
Compensated Absences	\$351,771	\$0	\$81,821	\$269,950
Intergovernmental Payable	3,257	2,235	3,257	2,235
Total Long-Term Obligations	<u>\$355,028</u>	<u>\$2,235</u>	<u>\$85,078</u>	<u>\$272,185</u>

Compensated absences and the intergovernmental payable will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Ohio Computer Association

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Educational Service Center paid SWOCA \$5,493 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler County JVS, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

B. Southwestern Ohio Educational Purchasing Cooperative

The Southwestern Ohio Educational Purchasing Cooperative (SOEPC) is a purchasing cooperative made up of nearly 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2001, the Educational Service Center paid \$300 to SOEPC to be a member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

NOTE 14 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP) was established through the Southwestern Ohio Educational Purchasing Cooperative (SOEPC) as an insurance purchasing pool.

***Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001***

NOTE 14 - INSURANCE PURCHASING POOL (continued)

The GRP's business and affairs are conducted by a Board of Directors. The Executive Director of the SOEPC, or his designee, serves as coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 15 - STATE FUNDING

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

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

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

NOTE 16- 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 of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2001.

B. Litigation:

The Educational Service Center is not currently party to any legal proceedings.

Warren County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2001

NOTE 17 - SUBSEQUENT EVENT

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 10, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Warren County Educational Service Center
Warren County
416 S. East Street
Lebanon, Ohio 45036

To the Board of Education:

We have audited the financial statements of the Warren County Educational Service Center, Warren County, Ohio, (the Center) as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated December 11, 2001, in which we noted the Center adopted Governmental Accounting Standards Board (GASB) Statement numbers 33 and 36. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Center in a separate letter dated December 11, 2001.

Internal Control Over Financial Reporting

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

Warren County Educational Service Center
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This report is intended for the information and use of the audit committee, management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 11, 2001



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OFFICE OF THE AUDITOR

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN 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
JANUARY 3, 2002**