



**GREENE COUNTY EDUCATIONAL SERVICE CENTER**

**GREENE COUNTY**

**REGULAR AUDIT**

**JULY 1, 1998 THROUGH JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**

STATE OF OHIO



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**REPORT OF INDEPENDENT ACCOUNTANTS**

Greene County Educational Service Center  
Greene County  
360 East Enon Road  
Yellow Springs, Ohio 45387

To the Governing Board

We have audited the accompanying general-purpose financial statements of the Greene County Educational Service Center (the Service Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the management of the Service Center. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 Greene County Educational Service Center, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the accompanying general purpose financial statements, the Center changed its method of accounting for deferred compensation plans, and corrected a prior period error in compensated absences.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2000 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.

**JIM PETRO**  
Auditor of State

January 19, 2000



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**GREENE COUNTY EDUCATIONAL SERVICE CENTER  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNTS GROUPS  
JUNE 30, 1999**

	<b>GOVERNMENTAL FUND TYPES</b>		
	<b>GENERAL</b>	<b>SPECIAL REVENUE</b>	<b>CAPITAL PROJECTS</b>
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,662,083	\$73,545	\$89,000
Receivables:			
Accounts	95,125	0	0
Due From Other Funds	5,663	0	0
Prepaid Items	1,250	0	0
Fixed Assets	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
Total Assets and Other Debits	<u>\$1,764,121</u>	<u>\$73,545</u>	<u>\$89,000</u>
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	\$47,753	\$13,614	\$0
Accrued Wages and Benefits Payable	404,434	3,797	0
Intergovernmental Payable	697,760	1,770	0
Compensated Absences Payable	56,415	0	0
Due To Other Funds	0	5,663	0
Deferred Revenue	38,454	0	0
Capital Lease Obligation	0	0	0
Total Liabilities	<u>1,244,816</u>	<u>24,844</u>	<u>0</u>
Fund Equity and Other Credits:			
Investment in General Fixed Assets	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	5,412	8,149	9,000
Unreserved, Undesignated	513,893	40,552	80,000
Total Fund Equity and Other Credits	<u>519,305</u>	<u>48,701</u>	<u>89,000</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,764,121</u>	<u>\$73,545</u>	<u>\$89,000</u>

See Accompanying Notes to the General Purpose Financial Statement



PROPRIETARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
ENTERPRISE			
\$15,812	\$0	\$0	\$1,840,440
0	0	0	95,125
0	0	0	5,663
0	0	0	1,250
0	231,448	0	231,448
0	0	270,632	270,632
<u>\$15,812</u>	<u>\$231,448</u>	<u>\$270,632</u>	<u>\$2,444,558</u>
\$356	\$0	\$0	\$61,723
0	0	0	408,231
211	0	7,888	707,629
0	0	250,037	306,452
0	0	0	5,663
0	0	0	38,454
0	0	12,707	12,707
<u>567</u>	<u>0</u>	<u>270,632</u>	<u>1,540,859</u>
0	231,448	0	231,448
15,245	0	0	15,245
0	0	0	22,561
0	0	0	634,445
<u>15,245</u>	<u>231,448</u>	<u>0</u>	<u>903,699</u>
<u>\$15,812</u>	<u>\$231,448</u>	<u>\$270,632</u>	<u>\$2,444,558</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>GOVERNMENTAL FUND TYPES</u>			<u>TOTAL (MEMORANDUM ONLY)</u>
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>CAPITAL PROJECTS</u>	
Revenues:				
Tuition and Fees	\$0	\$10,895	\$0	\$10,895
Interest	52,502	0	0	52,502
Intergovernmental	2,245,075	386,534	0	2,631,609
Charges for Services	2,783,909	0	0	2,783,909
Gifts and Donations	0	3,225	80,000	83,225
Miscellaneous	223,753	782	0	224,535
Total Revenues	<u>5,305,239</u>	<u>401,436</u>	<u>80,000</u>	<u>5,786,675</u>
Expenditures:				
Current:				
Instruction:				
Regular	547,270	3,873	0	551,143
Special	1,445,255	115,015	0	1,560,270
Support Services:				
Pupils	1,238,583	61,503	0	1,300,086
Instructional Staff	1,465,632	91,728	13,633	1,570,993
Board of Education	23,668	0	0	23,668
Administration	226,654	0	0	226,654
Fiscal	81,047	0	0	81,047
Business	24,846	0	0	24,846
Operation and Maintenance of Plant	186,530	0	0	186,530
Pupil Transportation	250	0	0	250
Central	2,548	0	0	2,548
Operation of Non-Instructional Services	0	837	0	837
Intergovernmental	0	136,551	0	136,551
Debt Service:				
Principal Retirement	5,886	0	0	5,886
Interest and Fiscal Charges	1,362	0	0	1,362
Total Expenditures	<u>5,249,531</u>	<u>409,507</u>	<u>13,633</u>	<u>5,672,671</u>
Excess of Revenues Over (Under) Expenditures	55,708	(8,071)	66,367	114,004
Fund Balances at Beginning of Year	<u>463,597</u>	<u>56,772</u>	<u>22,633</u>	<u>543,002</u>
Fund Balances at End of Year	<u>\$519,305</u>	<u>\$48,701</u>	<u>\$89,000</u>	<u>\$657,006</u>

See Accompanying Notes to the General Purpose Financial Statement

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>GENERAL FUND</b>		
	<b>REVISED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
Revenues:			
Tuition and Fees	\$0	\$0	\$0
Interest	49,345	49,345	0
Intergovernmental	2,222,935	2,222,935	0
Charges for Services	3,111,583	3,111,583	0
Gifts and Donations	0	0	0
Miscellaneous	201,422	201,422	0
Total Revenues	5,585,285	5,585,285	0
Expenditures:			
Current:			
Instruction:			
Regular	531,015	499,944	31,071
Special	1,378,454	1,307,263	71,191
Support Services:			
Pupils	1,177,847	1,124,777	53,070
Instructional Staff	1,489,639	1,396,309	93,330
Board of Education	29,890	23,913	5,977
Administration	228,870	199,794	29,076
Fiscal	90,253	81,903	8,350
Business	26,397	24,957	1,440
Operation and Maintenance of Plant	192,813	181,385	11,428
Pupil Transportation	0	0	0
Central	3,200	2,548	652
Operation of Non-Instructional Services	0	0	0
Total Expenditures	5,148,378	4,842,793	305,585
Excess of Revenues Over (Under) Expenditures	436,907	742,492	305,585
Other Financing Sources (Uses):			
Other Financing Sources	69,709	69,709	0
Refund of Prior Year Receipts	0	0	0
Advances-In	12,711	12,711	0
Advances-Out	0	0	0
Total Other Financing Sources (Uses)	82,420	82,420	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	519,327	824,912	305,585
Fund Balances at Beginning of Year	775,447	775,447	0
Prior Year Encumbrances Appropriated	23,529	23,529	0
Fund Balances at End of Year	\$1,318,303	\$1,623,888	\$305,585

See Accompanying Notes to the General Purpose Financial Statement

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$10,895	\$10,895	\$0	\$0	\$0	\$0
0	0	0	0	0	0
405,635	405,635	0	0	0	0
0	0	0	0	0	0
3,225	3,225	0	80,000	80,000	0
0	0	0	0	0	0
<u>419,755</u>	<u>419,755</u>	<u>0</u>	<u>80,000</u>	<u>80,000</u>	<u>0</u>
10,881	3,984	6,897	0	0	0
116,656	116,485	171	0	0	0
88,897	76,774	12,123	0	0	0
200,906	179,614	21,292	22,633	22,633	0
0	0	0	0	0	0
732	732	0	0	0	0
602	0	602	0	0	0
0	0	0	0	0	0
4,475	4,475	0	0	0	0
9,432	9,432	0	0	0	0
0	0	0	0	0	0
24,892	17,707	7,185	0	0	0
<u>457,473</u>	<u>409,203</u>	<u>48,270</u>	<u>22,633</u>	<u>22,633</u>	<u>0</u>
<u>(37,718)</u>	<u>10,552</u>	<u>48,270</u>	<u>57,367</u>	<u>57,367</u>	<u>0</u>
12,075	12,075	0	0	0	0
(13,058)	(13,058)	0	0	0	0
0	0	0	0	0	0
<u>(12,711)</u>	<u>(12,711)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>(13,694)</u>	<u>(13,694)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(51,412)	(3,142)	48,270	57,367	57,367	0
52,155	52,155	0	19,633	19,633	0
4,232	4,232	0	3,000	3,000	0
<u>\$4,975</u>	<u>\$53,245</u>	<u>\$48,270</u>	<u>\$80,000</u>	<u>\$80,000</u>	<u>\$0</u>

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>ENTERPRISE</b>
Operating Revenues:	
Charges for Services	\$27,437
Total Operating Revenues	27,437
Operating Expenses:	
Salaries and Wages	1,504
Fringe Benefits	211
Purchased Services	5,906
Materials and Supplies	6,684
Total Operating Expenses	14,305
Net Income	13,132
Retained Earnings at Beginning of Year	2,113
Retained Earnings at End of Year	\$15,245

See Accompanying Notes to the General Purpose Financial Statement

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>ENTERPRISE</b>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$28,237
Cash Payments for Employee Services and Benefits	(1,504)
Cash Payments to Suppliers for Goods and Services	(13,633)
Net Cash Provided By Operating Activities	13,100
Net Increase in Cash and Cash Equivalents	13,100
Cash and Cash Equivalents Beginning of Year	2,712
Cash and Cash Equivalents End of Year	\$15,812
Reconciliation of Net Income to Net	
<u>Cash Provided By Operating Activities:</u>	
Net Income	\$13,132
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	800
Decrease in Accounts Payable	(1,043)
Increase in Intergovernmental Payable	211
Net Cash Provided By Operating Activities	\$13,100

See Accompanying Notes to the General Purpose Financial Statement

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>ENTERPRISE FUND</b>		
	<b>REVISED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
Revenues:			
Charges for Services	\$28,232	\$28,232	\$0
Total Revenues	28,232	28,232	0
Expenses:			
Salaries and Wages	3,000	1,504	1,496
Fringe Benefits	720	0	720
Purchased Services	10,944	8,361	2,583
Materials and Supplies	6,687	4,728	1,959
Capital Outlay	5,000	3,000	2,000
Total Expenses	26,351	17,593	8,758
Excess of Revenues Over Expenses	1,881	10,639	8,758
Fund Equity at Beginning of Year	82	82	0
Prior Year Encumbrances Appropriated	2,630	2,630	0
Fund Equity at End of Year	\$4,593	\$13,351	\$8,758

See Accompanying Notes to the General Purpose Financial Statement



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Greene County Educational Service Center (the "Educational Service Center") is located in Yellow Springs, Ohio. The Educational Service Center supplies supervisory, special education, administrative and other services to the Beavercreek, Cedar Cliff, Greeneview, and Sugarcreek Local School Districts, the Yellow Springs Exempted Village School District, and Fairborn and Xenia City School Districts. 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 Greene County Educational Service Center operates under a locally-elected five-member Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 38 support staff employees, 49 certified teaching personnel, and 21 administrative employees that provide services to the local, exempted village, and city school districts.

A 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. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Greene County Educational Service Center, this includes all 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 for the organization. The Educational Service Center has no component units.

The following entities which perform activities within the Educational Service Center's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for these entities nor are they fiscally dependent on the Educational Service Center.

**Village of Yellow Springs** - The village government of Yellow Springs is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

**Parent Teacher Association** - The Educational Service Center is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The Educational Service Center is associated with five jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 17 to the general purpose financial statements. These organizations are:

Jointly Governed Organizations:

- Miami Valley Educational Computer Association
- Southwestern Ohio Educational Purchasing Council
- Miami Valley Special Education Regional Resource Center
- Greene County Family and Children First Council
- The Western Regional Professional Development Center

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY  
(Continued)**

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

**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 proprietary 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.

**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 available expendable 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, proprietary, 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 (except those accounted for in proprietary funds) 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 major capital projects) that are legally restricted to expenditure for specified purposes.

**Capital Projects Funds** - The 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 proprietary funds).

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis Of Presentation - Fund Accounting (Continued)**

**Proprietary Fund Type:**

Proprietary funds are used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

**Enterprise Fund** - The enterprise fund is used to account for Educational Service Center activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**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 Education Service Center's only fiduciary fund is an agency fund. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**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, other than those accounted for in the proprietary fund.

**General Long-Term Obligations Account Group** - This account group is established to account for all long-term obligations of the Educational Service Center except those accounted for in the proprietary fund.

**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 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.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The Educational Service Center does not have any contributed capital. Proprietary funds' operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting (Continued)**

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is sixty days after fiscal year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: excess costs and amounts due from other funds for goods and services.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

**C. Budgetary Data**

The budgetary process is prescribed by provisions 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 to include the actual beginning of the fiscal year fund balance and accepted by the Board. 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 Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Education Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Education Service Center the amount from part (B) that is to be apportioned to their district.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Budgetary Data (Continued)**

**Appropriations:**

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels 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 expenses 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, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the 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. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**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 year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary 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, cash received by the Educational Service Center is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 1999, the Educational Service Center had no investments.

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 1999 amounted to \$52,502, which includes \$6,856 assigned from other Educational Service Center funds.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 1999, 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 is reported in the year in which services are consumed.

**F. Estimates**

The preparation of the 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.

**G. 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. Currently no fixed assets are utilized in the proprietary fund. 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 three hundred dollars. The Educational Service Center does not have 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 assets' life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated.

**H. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

**Entitlement**

**General Fund**

State Foundation Program

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Intergovernmental Revenues (Continued)**

**Non-Reimbursable Grants**

**Special Revenue Funds**

- Local Professional Development
- Preschool Grant
- Education Management Information Systems
- Title III
- Drug Free
- Entry Year Program
- Goals 2000
- Horace Mann
- School-to-Work Grant
- Diversity Grant
- Special Education Transition Funding

**Capital Projects Fund**

- School Net

Grants and entitlements received in governmental funds amounted to 45 percent of governmental fund revenue during the 1999 fiscal year.

The Educational Service Center is the primary recipient of grants which are passed-through to or spent on behalf of the local school districts within the County. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as intergovernmental revenues and intergovernmental expenditures in a special revenue fund.

**I. Interfund Assets/Liabilities**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

**J. 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 leave time when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving 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 all employees after ten years of current service with the Educational Service Center.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Compensated Absences (Continued)**

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available 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. In the proprietary fund, the entire amount of compensated absences is reported as a fund liability.

**K. 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 pension obligations 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 expendable available financial resources. Payments made more than sixty days after year end are considered not to have used current available financial resources. Capital leases are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term obligations financed by the proprietary fund are reported as liabilities in the proprietary fund.

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Fund Balance Reserves**

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

**N. 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.



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**3. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT**

The Educational Service Center has implemented Statement No. 32 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employees Deferred Compensation Plan. As of June 30, 1999, the Ohio Public Employees Deferred Compensation Plan had established a trust for which the Educational Service Center has no fiduciary responsibility. The amounts in the deferred compensation plan are no longer presented in the financial statements of the Educational Service Center.

In prior years, the Educational Service Center calculated compensated absences payable incorrectly. The June 30, 1998 balance in the General Long-Term Obligations Account Group changed by \$119,855 from \$377,580 to \$257,725.

**4. ACCOUNTABILITY**

At June 30, 1999, the Special Trust Special Revenue Fund has a deficit fund balance of \$83, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above 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 (Non-GAAP Basis) and Actual - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**5. BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following tables summarize 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  
All Governmental Fund Types**

	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
GAAP Basis	\$55,708	(\$8,071)	\$66,367
Revenue Accruals	349,755	30,394	0
Expenditure Accruals	438,792	7,546	0
Advances	12,711	(12,711)	0
Prepaid Items	253	0	0
Encumbrances	(32,307)	(20,300)	(9,000)
Budget Basis	<u>\$824,912</u>	<u>(\$3,142)</u>	<u>\$57,367</u>

**Net Income/Excess of Revenues Over Expenses  
Proprietary Fund Type**

	<b>Enterprise</b>
GAAP Basis	\$13,132
Revenue Accruals	795
Expense Accruals	(833)
Encumbrances	(2,455)
Budget Basis	<u>\$10,639</u>

**6. DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

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.

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain 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.

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 the 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

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 \$1,840,440 and the bank balance was \$2,072,629. Of the bank balance, \$100,000 was covered by federal deposit insurance and \$1,972,629 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, noncompliance 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 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 which 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 did not have any investments at year end.

**7. 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 State 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 the average daily memberships of all of the School Districts served by the Educational Service Center by \$34. 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 District's approve or disapprove the additional apportionment.

**8. RECEIVABLES**

Receivables at June 30, 1999, consisted of accounts (excess costs) receivables and due from other funds. All receivables are considered collectible in full.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**9. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 1999 follows:

<u>Asset Category</u>	<u>Balance at 6/30/98</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/99</u>
Furniture and Equipment	\$209,051	\$22,397	\$0	\$231,448

There was no significant construction in progress at June 30, 1999.

**10. RISK MANAGEMENT**

**A. Property and Liability**

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 1999, 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 the Nationwide Insurance Company and holds a \$500 deductible.

The Educational Service Center's vehicles are covered under a business policy with the Nationwide Insurance Company and holds a \$100 deductible and a \$1,000,000 limit on any accident. Settled claims have not exceeded this commercial coverage in any of the past five years. There has been no significant reduction in insurance coverage from last year.

**B. Workers' Compensation**

For fiscal year 1999, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement 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 CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**11. DEFINED BENEFIT PENSION PLANS**

**A. 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, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**11. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

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 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 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 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, 1999, 1998, and 1997 were \$62,124, \$64,528, and \$60,437, respectively; 100 percent has been contributed for all three fiscal years.

**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 43215-3771.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 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, 1999, 1998, and 1997 were \$413,181, \$364,680, and \$280,659, respectively; zero percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$413,181 represents the unpaid contribution for fiscal year 1999 and is recorded as a liability within the respective funds.

**12. 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 funded 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, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$107,527 for fiscal year 1999.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**12. POSTEMPLOYMENT Benefits (Continued)**

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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, 1999, employer contributions to fund health care benefits were 6.30 percent of covered payroll, an increase from 4.98 percent for fiscal year 1998. 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 1999, 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 1999 fiscal year equaled \$58,717.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. All twelve month employees earn fifteen to twenty-five days vacation per fiscal year, depending upon length of service. Employees may accumulate five vacation days over their yearly maximum allowance at any time during a contract year. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave is converted to sick leave at year end. Accumulated, unused personal leave is not paid to employees upon termination of employment.

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 260 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 65 days for those employees who have served 10 years or more with the Education Service Center. For those employees with less than 10 years of service, the maximum leave credit is 40 days.

**B. Insurance Benefits**

The Educational Service Center provides dental insurance, life insurance and accidental death and dismemberment insurance to most employees through Coresource. Medical/surgical benefits are provided through the Anthem Community Mutual.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**13. OTHER EMPLOYEE BENEFITS (Continued)**

**C. Deferred Compensation Plan**

Educational Service Center employees and elected officials participate in the Ohio Public Employees Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

For fiscal year 1999, the Educational Service Center has implemented GASB Statement No. 32, "Deferred Compensation Plans". This statement eliminates the requirement that the Educational Service Center report plan assets in an agency fund if the plan has established a trust fund whose assets are not held by the Educational Service Center in a fiduciary capacity. The plan offered has established such a trust fund by year end, and the amounts are no longer report on the Educational Service Center's balance sheet as of June 30, 1999.

**14. CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the Educational Service Center entered into capitalized leases for reproduction equipment. The terms of each agreement provide options to purchase the equipment. Each 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as function expenditures on a budgetary basis.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$28,519, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in fiscal year 1999 totaled \$5,886.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999:

Fiscal Year Ending June 30,	GLTOAG
2000	\$7,248
2001	6,657
Total	13,905
Less: Amount Representing Interest	(1,198)
Present Value of Net Minimum Lease Payments	\$12,707



**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**15. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during the fiscal year 1999 were as follows:

	<b>Restated Amount Outstanding 6/30/98</b>	<b>Additions</b>	<b>Deletions</b>	<b>Amount Outstanding 6/30/99</b>
Capital Leases	\$18,593	\$0	\$5,886	\$12,707
Intergovernmental Payable	8,521	7,888	8,521	7,888
Compensated Absences	230,611	19,426	0	250,037
Total General Long-Term Obligations	<u>\$257,725</u>	<u>\$27,314</u>	<u>\$14,407</u>	<u>\$270,632</u>

Capital leases will be paid from the General Fund. Intergovernmental payable and compensated absences 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.

**16. INTERFUND ACTIVITY**

As of June 30, 1999, the General Fund had due from other funds of \$5,663. These monies were owed to the General Fund from the Preschool Grant Special Revenue Fund, \$999, and the Goals 2000 Special Revenue Fund, \$4,664.

**17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

**Miami Valley Educational Computer Association** - The Educational Service Center is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. 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 districts.

The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The Educational Service Center paid MVECA \$3,023 for services provided during the year. Financial information can be obtained from Gary Bosserman, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The Montgomery County Educational Service Center acts as the Fiscal Agent for the group. The purpose of the cooperative is to obtain 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.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**A. Jointly Governed Organizations (Continued)**

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. Payments to SOEPC are made from the General Fund. During fiscal year 1999, the Educational Service Center paid \$1,354 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Miami Valley Special Education Regional Resource Center** - The Miami Valley Special Education Regional Resource Center (MVSEERRC) is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in the Miami Valley which comprise sixty percent of the Board, two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Developmental Disabilities, representatives of universities and students and persons with disabilities representations. The Educational Service Center participates in the following services of MVSEERRC: Identification and Program Development Project, Regional Educational Assessment Programming Project, Instructional Resource Center Project, Early Childhood Services Project, and the Ohio Resource Center for Low Incidence and Severely Handicapped Project. These services are to assist the Educational Service Center in complying with mandates of Public Law 99-457 for educating children with disabilities.

There is no financial commitment made by the School Districts involved in MVSEERRC. MVSEERRC is not dependent upon 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 MVSEERRC. The Educational Service Center made no contributions to MVSEERRC during fiscal year 1999.

**Greene County Family and Children First Council** - The Greene County Family and Children First Council is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: Director of the Board of Alcohol, Drug Addiction and Mental Health Services that serve Greene County, the Health Commissioner of the Board of Greene County, Director of the Greene County Department of Human Services, Executive Director of Greene County's Children Services Board, Superintendent of Greene County's Board of Mental Retardation and Developmental Disabilities, the Greene County Juvenile Court Judge, Superintendents of all School Districts and Educational Service Centers within the County, a representative of the largest city in the County, the Chair of the Board of Greene County Commissioners, a representative of the regional office of the Department of Youth Services, a representative of Head Start services in Greene County, a representative of Greene County's Early Intervention Collaborative, and at least three individuals representing families residing in Greene County. When possible, the number of members representing families will be equal to twenty percent of the Council's remaining membership. In fiscal year 1999, the Educational Service Center made contributions of \$19,047 to the Council. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**A. Jointly Governed Organizations (Continued)**

**The Western Regional Professional Development Center** - The Western Regional Professional Development Center (WRPDC) is a committee established by Senate Bill 230. The purpose of the WRPDC is to review the course work and other professional development activities completed by educators within the district for renewal of certificates of licenses. Membership is open to all schools within Greene County, including the Greene County MRDD. The Executive Committee is comprised of a chairperson, vice-chairperson, recorder/clerk, member Superintendent, County Superintendent, chairperson of each subcommittee, and any other person that the committee deems necessary to make sure that every member school district has at least one person on the Executive Committee. The County Superintendent is the only non-voting member. The overall committee structure shall be such that teachers shall comprise the majority of the positions within the committees. There are no fees or charges to be paid by the member school districts.

**B. Insurance Purchasing Pool**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the 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.

**18. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$2,222,935 of school foundation support for its General Fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

**19. CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms 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, 1999.

**20. YEAR 2000 DISCLOSURE**

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Service Center's operations.

The Service Center has completed an inventory of mission-critical computer and other equipment necessary to conducting Service Center operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)). The Service Center has one building with power, heating and air-conditioning systems, but these systems are not affected by the Year 2000 issue.

The Educational Service Center uses the State of Ohio Uniform Accounting System software for its financial reporting, and payroll and employee benefits. The State is responsible for remediating this system.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of Afoundation @ payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through EMIS. The State is responsible for remediating these systems.

To the best of management's knowledge and belief, as of January 19, 2000, the Service Center experienced no significant interruption of mission critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Service Center does business may also experience Year 2000 readiness issues that are as yet, unknown.



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JIM PETRO, AUDITOR OF STATE

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

Greene County Educational Service Center  
Greene County  
360 East Enon Road  
Yellow Springs, Ohio 45387

To the Governing Board:

We have audited the financial statements of Greene County Educational Service Center (the Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 19, 2000, in which the Service Center changed its method of accounting for deferred compensation plans, and corrected a prior period error in compensated absences. We conducted our audit in accordance with generally accepted auditing standards 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 Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service 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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the Service Center in a separate letter dated January 19, 2000.

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

**JIM PETRO**  
Auditor of State

January 19, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**GREENE COUNTY EDUCATIONAL SERVICE CENTER**

**GREENE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 7, 2000**