



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

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**STATE OF OHIO**



**GREENE COUNTY EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

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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, Greene County, (the Service Center) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service 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 Greene County Educational Service Center, Greene County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2002, on our consideration of the Service 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.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

December 12, 2002

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**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>Assets and Other Debits</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$696,575	\$152,321	\$16,032
Receivables:			
Accounts		318	
Intergovernmental	422,973		
Prepaid Items	6,956		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	<u>1,126,504</u>	<u>152,639</u>	<u>16,032</u>
<b>Liabilities, Fund Equity and Other Credits</b>			
<b>Liabilities:</b>			
Accounts Payable	53,880	18,720	
Accrued Wages and Benefits Payable	672,132	9,531	
Intergovernmental Payable	210,230	521	
Compensated Absences Payable	34,452		
Due To Others			
Deferred Revenue	162,689		
Capital Lease Obligation			
Total Liabilities	<u>1,133,383</u>	<u>28,772</u>	
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	30,555	6,947	
Unreserved, Undesignated (Deficit)	(37,434)	116,920	16,032
Total Fund Equity (Deficit) and Other Credits	<u>(6,879)</u>	<u>123,867</u>	<u>16,032</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$1,126,504</u>	<u>\$152,639</u>	<u>\$16,032</u>

*See Accompanying Notes to the General Purpose Financial Statements.*

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$17,541	\$93			\$882,562
				318
				422,973
				6,956
1,749		585,460		587,209
			357,943	357,943
<u>19,290</u>	<u>93</u>	<u>585,460</u>	<u>357,943</u>	<u>2,257,961</u>
				72,600
				681,663
			6,868	217,619
			315,475	349,927
	\$93			93
				162,689
			35,600	35,600
	<u>93</u>		<u>357,943</u>	<u>1,520,191</u>
		585,460		585,460
19,290				19,290
				37,502
				95,518
<u>19,290</u>		<u>585,460</u>		<u>737,770</u>
<u>\$19,290</u>	<u>\$93</u>	<u>\$585,460</u>	<u>\$357,943</u>	<u>\$2,257,961</u>

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Revenues:</b>				
Tuition and Fees	\$583,636			\$583,636
Interest	12,636			12,636
Intergovernmental	3,383,279	504,621	6,595	3,894,495
Charges for Services	4,505,121			4,505,121
Miscellaneous	124,063	37,618		161,681
Total Revenues	<u>8,608,735</u>	<u>542,239</u>	<u>6,595</u>	<u>9,157,569</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	1,541,974	112,868		1,654,842
Special	2,051,169			2,051,169
Support Services:				
Pupils	2,405,093	72,733		2,477,826
Instructional Staff	1,851,354	63,757	14,000	1,929,111
Board of Education	21,380			21,380
Administration	251,158	116,794		367,952
Fiscal	141,322			141,322
Business	23,507			23,507
Operation and Maintenance of Plant	255,412			255,412
Central	65,375	25		65,400
Operation of Non-Instructional Services		2,849		2,849
Capital Outlay	20,224			20,224
Intergovernmental	32,110	132,866		164,976
Debt Service:				
Principal Retirement	15,089			15,089
Interest and Fiscal Charges	3,526			3,526
Total Expenditures	<u>8,678,693</u>	<u>501,892</u>	<u>14,000</u>	<u>9,194,585</u>
Excess of Revenues Over (Under) Expenditures	(69,958)	40,347	(7,405)	(37,016)
Fund Balances at Beginning of Year	<u>63,079</u>	<u>83,520</u>	<u>23,437</u>	<u>170,036</u>
Fund Balances (Deficit) at End of Year	<u>(\$6,879)</u>	<u>\$123,867</u>	<u>\$16,032</u>	<u>\$133,020</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**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, 2002**

	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Tuition and Fees	\$798,874	\$583,636	(\$215,238)
Interest	13,500	15,002	1,502
Intergovernmental	2,645,594	2,596,204	(49,390)
Charges for Services	4,802,214	4,882,108	79,894
Miscellaneous	104,563	124,063	19,500
Total Revenues	<u>8,364,745</u>	<u>8,201,013</u>	<u>(163,732)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	1,723,869	1,618,599	105,270
Special	2,297,707	2,231,835	65,872
Support Services:			
Pupils	2,622,447	2,488,605	133,842
Instructional Staff	2,145,030	2,007,741	137,289
Board of Education	34,119	21,058	13,061
Administration	291,633	261,599	30,034
Fiscal	151,728	144,936	6,792
Business	32,105	22,812	9,293
Operation and Maintenance of Plant	310,824	290,847	19,977
Pupil Transportation			
Central	66,851	63,994	2,857
Operation of Non-Instructional Services	20,000	15,112	4,888
Total Expenditures	<u>9,696,313</u>	<u>9,167,138</u>	<u>529,175</u>
Excess of Revenues			
Under Expenditures	<u>(1,331,568)</u>	<u>(966,125)</u>	<u>365,443</u>
<b>Other Financing Sources (Uses):</b>			
Other Financing Sources	872,088	800,391	(71,697)
Refund of Prior Year Receipts	<u>(243,980)</u>	<u>(243,980)</u>	
Total Other Financing Sources (Uses)	<u>628,108</u>	<u>556,411</u>	<u>(71,697)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(703,460)	(409,714)	293,746
Fund Balances at Beginning of Year	979,458	979,458	
Prior Year Encumbrances Appropriated	<u>57,052</u>	<u>57,052</u>	
Fund Balances at End of Year	<u>\$333,050</u>	<u>\$626,796</u>	<u>\$293,746</u>

*See Accompanying Notes to the General Purpose Financial Statements.*

Special Revenue Funds			Capital Projects Funds			Total (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
						\$798,874	\$583,636	(\$215,238)
						13,500	15,002	1,502
455,280	455,280		6,595	6,595		3,107,469	3,058,079	(49,390)
						4,802,214	4,882,108	79,894
34,762	35,830	1,068				139,325	159,893	20,568
490,042	491,110	1,068	6,595	6,595		8,861,382	8,698,718	(162,664)
139,763	112,691	27,072				1,863,632	1,731,290	132,342
41,949	41,287	662				2,339,656	2,273,122	66,534
110,767	94,618	16,149				2,733,214	2,583,223	149,991
154,517	85,840	68,677	23,437	14,000	9,437	2,322,984	2,107,581	215,403
						34,119	21,058	13,061
153,281	146,117	7,164				444,914	407,716	37,198
						151,728	144,936	6,792
						32,105	22,812	9,293
4,975	4,975					315,799	295,822	19,977
16,059	16,059					16,059	16,059	
5,795	24	5,771	6,595		6,595	79,241	64,018	15,223
10,805	2,928	7,877				30,805	18,040	12,765
637,911	504,539	133,372	30,032	14,000	16,032	10,364,256	9,685,677	678,579
(147,869)	(13,429)	134,440	(23,437)	(7,405)	16,032	(1,502,874)	(986,959)	515,915
50,841	50,932	91				922,929	851,323	(71,606)
						(243,980)	(243,980)	
50,841	50,932	91				678,949	607,343	(71,606)
(97,028)	37,503	134,531	(23,437)	(7,405)	16,032	(823,925)	(379,616)	444,309
88,914	88,914		23,437	23,437		1,091,809	1,091,809	
8,259	8,259					65,311	65,311	
\$145	\$134,676	\$134,531	\$0	\$16,032	\$16,032	\$333,195	\$777,504	\$444,309

EDUCATIONAL SERVICE CENTER  
GREENE COUNTY

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>Enterprise</u>
<b>Operating Revenues:</b>	
Charges for Services	<u>\$42,082</u>
<b>Operating Expenses:</b>	
Salaries and Wages	4,714
Fringe Benefits	687
Purchased Services	10,862
Materials and Supplies	14,356
Depreciation	250
Total Operating Expenses	<u>30,869</u>
Net Income	11,213
Retained Earnings at Beginning of Year	<u>8,077</u>
Retained Earnings at End of Year	<u><u>\$19,290</u></u>

*See Accompanying Notes to the General Purpose Financial Statements.*

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**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, 2002**

	<b>Enterprise Fund</b>		
	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Charges for Services	\$33,000	\$42,082	\$9,082
<b>Expenses:</b>			
Salaries and Wages	11,000	4,714	6,286
Fringe Benefits	3,070	2,132	938
Purchased Services	21,962	20,732	1,230
Materials and Supplies	14,500	14,697	(197)
Total Expenses	50,532	42,275	8,257
Revenues Under Expenses	(17,532)	(193)	17,339
Fund Equity at Beginning of Year	9,173	9,173	
Prior Year Encumbrances Appropriated	8,359	8,359	
Fund Equity at End of Year	\$0	\$17,339	\$17,339

*See Accompanying Notes to the General Purpose Financial Statements.*

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>Enterprise</b>
<b>Increase (Decrease) in Cash and Cash Equivalents:</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$42,082
Cash Payments to Suppliers for Goods and Services	(35,227)
Cash Payments to Employees for Services	(4,714)
Cash Payments for Employee Benefits	(2,132)
Net Cash Provided by Operating Activities	9
Cash and Cash Equivalents at Beginning of Year	17,532
Cash and Cash Equivalents at End of Year	\$17,541
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$11,213
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depreciation	250
<b>Changes in Assets and Liabilities:</b>	
Decrease in Accounts Payable	(10,009)
Decrease in Intergovernmental Payable	(1,445)
Total Adjustments	(11,204)
Net Cash Provided by Operating Activities	\$9

*See Accompanying Notes to the General Purpose Financial Statements.*

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**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 77 support staff employees, 73 certified teaching personnel, and 24 administrative employees that provide services to the local, exempted village, and city school districts.

**A. 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 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, staff development offered to other School Districts and student related activities of the Educational Service Center.

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 does not have any 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 participates in five jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 14 to the general purpose financial statements. These organizations are:

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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

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.

**1. 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 the proprietary fund) are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**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** - The 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 the proprietary fund).

**2. 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.

**3. Fiduciary Fund Types:**

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

**4. 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.

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**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.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund 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. The proprietary fund operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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 fiduciary funds. The full accrual basis of accounting is followed for the proprietary 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 sixty 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. On the accrual basis, 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: tuition, student fees, and grants.

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 a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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.

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

**C. Budgetary Process**

The Educational Service Center 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 the actual beginning of the fiscal year fund balance. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds, other than the agency fund, are budgeted and appropriated.

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.

**1. Appropriations:**

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund, function, and object level of expenditures. 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. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control. Any revisions that alter the total appropriation at any level of control must be approved by the Governing Board of the Educational Service Center.

The Governing Board 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 enacted; however, the amendments were not 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 by the Board of Education as a management control device during the year for all funds other than the agency fund.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**2. 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. 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 the proprietary fund.

**3. 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 2002, 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 2002 amounted to \$12,636 which includes \$3,081 assigned from other Educational Service Center funds.

For purposes of the statement of cash flows and 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.

**E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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. 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. Fixed assets utilized in the proprietary fund are capitalized in the 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 five hundred dollars. The Educational Service Center does not have any infrastructure.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

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 Asset Account Group are not depreciated. Depreciation of furniture and equipment in the proprietary fund is computed using the straight-line method over an estimated useful life of ten to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

**G. 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 sick leave for all employees after ten years of current service with the Educational Service Center.

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.

**H. 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 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.

**I. 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

**J. 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.

**K. Pass-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For the fiscal year 2002, these funds included the EMIS, ONEnet Equipment Grant, ONEnet Connectivity Grant, Parent Mentor, Preschool Grant, Indicators of Success, Technical Assistance, Entry Year Grant, Alternative School Grant, and Schoolnet Professional Development.

**L. 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.

**M. 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.

**3. 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 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).

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

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).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

(Under) Expenditures and Other Financing Uses All Governmental Fund Types			
	General	Special Revenue	Capital Projects
GAAP Basis	(\$69,958)	\$40,347	(\$7,405)
Adjustments:			
Revenue Accruals	151,055	(197)	
Expenditure Accruals	(419,673)	14,998	
Unrecorded Cash	(2,366)		
Encumbrances	(68,772)	(17,645)	
Budget Basis	(\$409,714)	\$37,503	(\$7,405)

Net Income/Excess of Revenues Under Expenses Proprietary Fund Type	
	Enterprise
GAAP Basis	\$11,213
Depreciation	250
Expense Accruals	(11,454)
Encumbrances	(202)
Budget Basis	(\$193)

**4. 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**4. 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 (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) 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, 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.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

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

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 \$882,562 and the bank balance was \$1,394,291. Of the bank balance, \$100,000 was covered by federal deposit insurance and \$1,294,291 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 did not have any investments at year end.

**5. 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. By agreement, the Educational Service Center receives an additional \$5.50 per pupil. This amount is deducted by the State Department of Education from that Educational Service Center'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 \$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.

**6. RECEIVABLES**

Intergovernmental receivables at June 30, 2002, consisted of excess costs and tuition from other school districts to the General Fund, in the amount of \$422,973. All receivables are considered collectible in full.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**7. FIXED ASSETS**

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$2,499
Less: Accumulated Depreciation	<u>(750)</u>
Net Fixed Assets	<u><u>\$1,749</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<b>Asset Category</b>	<b>Balance at 6/30/01</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 6/30/02</b>
Furniture and Equipment	<u>\$515,381</u>	<u>\$75,817</u>	<u>\$5,738</u>	<u>\$585,460</u>

**8. RISK MANAGEMENT**

**A. Property and Liability**

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 2002, the Educational Service Center contracted with Indiana Insurance Company for general liability insurance with a \$3,000,000 single occurrence limit and a \$7,000,000 aggregate. Property is protected by the Indiana Insurance Company for \$450,000 and holds a \$500 deductible.

The Educational Service Center does not own any vehicles. The vehicles owned by employees who travel 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 three years. There has been no significant reduction in insurance coverage from last year.

**B. Workers' Compensation**

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The plan is intended 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 Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
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**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. That report may be obtained by writing to the School Employees Retirement System, 300 E. Broad Street, Columbus, Ohio 43215-3746.

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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 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, 2002, 2001, and 2000 were \$97,811, \$62,403, and \$59,267, respectively; 100 percent has been contributed for all three 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 State statute per 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, 2002, 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. 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, 2002, 2001, and 2000 were \$152,270, \$495,052, and \$246,038, respectively; 53.85 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$70,269 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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(Continued)**

**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, 2002, 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 \$72,128 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, 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 2002 fiscal year equaled \$159,854.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**11. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits 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 fiscal 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, employees with ten or more years of current service with the Educational Service Center receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 65 days. 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 Blue Cross/Blue Shield.

**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.

**12. CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the Educational Service Center entered into capitalized leases for reproduction 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 in the general fund. These expenditures are reported as function expenditures on the budgetary statements.

Fixed assets acquired by lease have been capitalized in the general fixed assets account group in the amount of \$76,438, 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 2002 totaled \$15,089.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002:

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**12. CAPITALIZED LEASES - LESSEE DISCLOSURE**

Fiscal Year Ending June 30	GLTDAG
2003	\$18,615
2004	18,615
2005	1,551
Total	38,781
Less: Amount Representing Interest	(3,181)
Present Value of Minimum Lease Payments	\$35,600

**13. LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deletions	Amount Outstanding 6/30/02
Intergovernmental Payable	\$8,266	\$6,868	\$8,266	\$6,868
Compensated Absences Payable	322,314		6,839	315,475
Capital Lease Obligation	50,689		15,089	35,600
Total General Long-Term Obligations	\$381,269	\$6,868	\$30,194	\$357,943

Intergovernmental payable and compensated absences payable will be paid from the funds from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period. The capital lease obligation will be paid from the General Fund.

**14. 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 the 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 \$7,534 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.

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

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

**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 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.

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. Any district withdrawing from the SOEPC forfeits 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 2002, the Educational Service Center paid \$300 to SOEPC for membership fees. 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 (MVSERRC) 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 MVSERRC: 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 MVSERRC. MVSERRC 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 MVSERRC. The Educational Service Center made no contributions to MVSERRC during fiscal year 2002.

**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 2002, the Educational Service Center made contributions of \$19,355 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.

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (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 is 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. Additional information can be obtained from Jeanne Anderson at P.O. Box 972, Dayton, Ohio 45422.

**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.

**15. ACCOUNTABILITY**

The General Fund had a deficit fund balance of \$6,879 at June 30, 2002. The deficit is due to the Educational Service Center operating a few programs at a loss in order to deplete the large carryover that had accumulated in the general fund. For the past few years, reimbursements for operating the programs were not requested from the member school districts in order to deplete the carryover. The Educational Service Center is monitoring the general fund and plans to increase charges for services from the member school districts in the future.

**16. LEASE/PURCHASE AGREEMENT**

On November 9, 2000, the Educational Service Center entered into a lease agreement with Banc One Leasing Corporation for the purchase of land in the amount of \$541,328 on behalf of Sugarcreek Local School District. The lease payments are to be made by Sugarcreek Local School District directly to Banc One Leasing Corporation over 5 years. Payments are made quarterly at 5.51% interest. The Educational Service Center holds title to the land until the lease is paid in full, however the land is currently being utilized by Sugarcreek Local School District to build an addition to their school building. At the end of the lease, the Educational Service Center will sign over title of the land to Sugarcreek Local School District. The Educational Service Center has no legal liability for repayment of this lease. The following schedule shows principal and interest payments to be made for the lease by Sugarcreek Local School District.

**EDUCATIONAL SERVICE CENTER  
GREENE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

**16. LEASE/PURCHASE AGREEMENT (Continued)**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2001	\$78,440	\$13,740	\$92,180
2002	99,435	23,475	122,910
2003	105,029	17,881	122,910
2004	110,937	11,973	122,910
2005	117,177	5,733	122,910
2006	30,310	417	30,727
	<u>\$541,328</u>	<u>\$73,219</u>	<u>\$614,547</u>

**17. STATE SCHOOL FUNDING DECISION**

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

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

**18. CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms 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, 2002.

**19. SUBSEQUENT EVENTS**

On July 1, 2002, the Educational Service Center approved a lease-purchase financing agreement for the acquisition of the current administration building and related grounds and facilities. The agreement is not to exceed \$500,000. The initial term of the agreement is July 25, 2002 until June 30, 2003, provided that the Bank and/or the Educational Service Center shall have the right to renew for a total of not more than nine additional one-year renewable terms beginning on July 1, 2003.

On July 1, 2002, the Educational Service Center awarded contract bids for the renovation project of the administration building.

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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**

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 the Greene County Educational Service Center, Greene County, (the Service Center) as of and for the year ended June 30, 2002 and have issued our report thereon dated December 12, 2002. 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 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*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated December 12, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 December 12, 2002.

Greene County Educational Service Center  
Greene County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end.

**Jim Petro**  
Auditor of State

December 12, 2002



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  
JANUARY 7, 2003**