



**Auditor of State
Betty Montgomery**

**WARREN COUNTY EDUCATIONAL SERVICE CENTER
WARREN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Warren County Educational Service Center, Warren County, Ohio (the Center), as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Warren County Educational Service Center, Warren County, as of June 30, 2003, and the results of its operations 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 February 3, 2004 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 3, 2004

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WARREN COUNTY EDUCATIONAL SERVICE CENTER
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	GOVERNMENTAL FUND TYPES		
	General	Special Revenue	Capital Projects
<u>Assets and Other Debits:</u>			
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,110,372	\$898,613	\$25,513
<i>Receivables:</i>			
Accounts	230	35	0
Intergovernmental	237,015	69,418	0
Accrued Interest	23	0	0
Interfund	13,326	0	0
Prepaid Items	6,025	125	0
Fixed Assets	0	0	0
<u>Other Debits:</u>			
Amount to be Provided from General Government			
Resources for Retirement of Long-Term Obligations	0	0	0
 <i>Total Assets and Other Debits</i>	 \$3,366,991	 \$968,191	 \$25,513
 <u>Liabilities, Fund Equity, and Other Credits:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$3,535	\$3,262	\$0
Contracts Payable	2,750	0	0
Accrued Wages and Benefits Payable	360,805	98,289	0
Compensated Absences Payable	0	0	0
Intergovernmental Payable	11,830	3,230	0
Interfund Payable	0	13,326	0
<i>Total Liabilities</i>	378,920	118,107	0
 <u>Fund Equity and Other Credits:</u>			
Investment in General Fixed Assets	0	0	0
<i>Fund Balance:</i>			
Reserved for Encumbrances	6,108	12,041	0
<i>Unreserved:</i>			
Undesignated	2,981,963	838,043	25,513
<i>Total Fund Equity and Other Credits</i>	2,988,071	850,084	25,513
 <i>Total Liabilities, Fund Equity and Other Credits</i>	 \$3,366,991	 \$968,191	 \$25,513

See accompanying notes to the general purpose financial statements.

<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Expendable Trust			
\$9,341	\$0	\$0	\$4,043,839
0	0	0	265
0	0	0	306,433
0	0	0	23
0	0	0	13,326
0	0	0	6,150
0	930,652	0	930,652
0	0	297,162	297,162
<u>\$9,341</u>	<u>\$930,652</u>	<u>\$297,162</u>	<u>\$5,597,850</u>
\$0	\$0	\$0	\$6,797
0	0	0	2,750
0	0	0	459,094
0	0	287,601	287,601
0	0	9,561	24,621
0	0	0	13,326
0	0	297,162	794,189
0	930,652	0	930,652
0	0	0	18,149
9,341	0	0	3,854,860
<u>9,341</u>	<u>930,652</u>	<u>0</u>	<u>4,803,661</u>
<u>\$9,341</u>	<u>\$930,652</u>	<u>\$297,162</u>	<u>\$5,597,850</u>

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WARREN COUNTY EDUCATIONAL SERVICE CENTER
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	<u>GOVERNMENTAL FUND TYPES</u>			<u>FIDUCIARY</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>FUND TYPE</u> Expendable Trust	
<u>Revenues:</u>					
Intergovernmental	\$1,324,743	\$518,269	\$0	\$0	\$1,843,012
Interest	47,464	0	361	0	47,825
Tuition and Fees	333,404	696,150	0	0	1,029,554
Gifts and Donations	0	0	0	2,700	2,700
Customer Services	4,104,050	258,628	0	0	4,362,678
Miscellaneous	238,662	579,410	0	0	818,072
<i>Total Revenues</i>	<u>6,048,323</u>	<u>2,052,457</u>	<u>361</u>	<u>2,700</u>	<u>8,103,841</u>
<u>Expenditures:</u>					
<i>Current:</i>					
<i>Instruction:</i>					
Regular	387,755	627,405	0	0	1,015,160
Special	281,486	37,084	0	0	318,570
<i>Support Services:</i>					
Pupils	1,365,855	823,644	0	1,229	2,190,728
Instructional Staff	129,883	174,264	0	0	304,147
Board of Education	20,375	0	0	0	20,375
Administration	2,625,482	16,060	0	0	2,641,542
Fiscal	260,320	219	0	0	260,539
Operation and Maintenance of Plant	12,553	1,828	0	0	14,381
Pupil Transportation	16,502	128,956	0	0	145,458
Central	262,310	7,526	0	0	269,836
Non-Instructional Services	0	1,000	0	5,300	6,300
<i>Total Expenditures</i>	<u>5,362,521</u>	<u>1,817,986</u>	<u>0</u>	<u>6,529</u>	<u>7,187,036</u>
Excess of Revenues Over (Under) Expenditures	685,802	234,471	361	(3,829)	916,805
Fund Balances at Beginning of Year	<u>2,302,269</u>	<u>615,613</u>	<u>25,152</u>	<u>13,170</u>	<u>2,956,204</u>
Fund Balances at End of Year	<u><u>\$2,988,071</u></u>	<u><u>\$850,084</u></u>	<u><u>\$25,513</u></u>	<u><u>\$9,341</u></u>	<u><u>\$3,873,009</u></u>

See accompanying notes to the general purpose financial statements.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	GENERAL FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$1,324,743	\$1,324,743	\$0
Interest	48,111	48,111	0
Tuition and Fees	333,404	333,404	0
Gifts and Donations	0	0	0
Customer Services	3,961,884	3,961,884	0
Miscellaneous	238,423	238,423	0
<i>Total Revenues</i>	<u>5,906,565</u>	<u>5,906,565</u>	<u>0</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	677,429	387,101	290,328
Special	300,390	265,270	35,120
<i>Support Services:</i>			
Pupils	1,389,776	1,316,217	73,559
Instructional Staff	202,148	132,473	69,675
Board of Education	39,979	22,104	17,875
Administration	3,378,794	2,607,141	771,653
Fiscal	299,673	258,119	41,554
Business	2,500	0	2,500
Operation and Maintenance of Plant	21,500	12,477	9,023
Pupil Transportation	17,579	16,493	1,086
Central	286,436	268,607	17,829
Non-Instructional Services	0	0	0
Capital Outlay	0	0	0
<i>Total Expenditures</i>	<u>6,616,204</u>	<u>5,286,002</u>	<u>1,330,202</u>
Excess of Revenues Over (Under) Expenditures	(709,639)	620,563	1,330,202
<u>Other Financing Sources (Uses):</u>			
Advances Out	(300,000)	(13,326)	286,674
Advances In	13,500	13,500	0
Operating Transfers Out	(60,000)	0	60,000
<i>Total Other Financing Sources (Uses)</i>	<u>(346,500)</u>	<u>174</u>	<u>346,674</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,056,139)	620,737	1,676,876
Fund Balances at Beginning of Year	2,347,678	2,347,678	0
Prior Year Encumbrances Appropriated	124,890	124,890	0
Fund Balances at End of Year	<u>\$1,416,429</u>	<u>\$3,093,305</u>	<u>\$1,676,876</u>

See accompanying notes to the general purpose financial statements.

SPECIAL REVENUE FUNDS

CAPITAL PROJECTS FUNDS

Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$505,059	\$505,059	\$0	\$0	\$0	\$0
0	0	0	377	377	0
709,785	709,785	0	0	0	0
0	0	0	0	0	0
272,034	272,034	0	0	0	0
579,640	579,640	0	0	0	0
<u>2,066,518</u>	<u>2,066,518</u>	<u>0</u>	<u>377</u>	<u>377</u>	<u>0</u>
933,908	600,508	333,400	0	0	0
54,000	33,521	20,479	0	0	0
995,655	870,438	125,217	0	0	0
176,047	174,389	1,658	0	0	0
0	0	0	0	0	0
18,515	18,100	415	0	0	0
775	219	556	0	0	0
0	0	0	0	0	0
1,828	1,828	0	0	0	0
148,649	131,289	17,360	0	0	0
10,344	7,526	2,818	0	0	0
1,000	1,000	0	0	0	0
0	0	0	25,000	0	25,000
<u>2,340,721</u>	<u>1,838,818</u>	<u>501,903</u>	<u>25,000</u>	<u>0</u>	<u>25,000</u>
(274,203)	227,700	501,903	(24,623)	377	25,000
(13,500)	(13,500)	0	0	0	0
13,326	13,326	0	0	0	0
0	0	0	0	0	0
<u>(174)</u>	<u>(174)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
(274,377)	227,526	501,903	(24,623)	377	25,000
570,778	570,778	0	25,113	25,113	0
85,923	85,923	0	0	0	0
<u>\$382,324</u>	<u>\$884,227</u>	<u>\$501,903</u>	<u>\$490</u>	<u>\$25,490</u>	<u>\$25,000</u>

(Continued)

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types and Expendable Trust Fund
For the Fiscal Year Ended June 30, 2003

	EXPENDABLE TRUST FUND		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$0	\$0	\$0
Interest	0	0	0
Tuition and Fees	0	0	0
Gifts and Donations	2,700	2,700	0
Customer Services	0	0	0
Miscellaneous	0	0	0
<i>Total Revenues</i>	<u>2,700</u>	<u>2,700</u>	<u>0</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	0	0	0
Special	0	0	0
<i>Support Services:</i>			
Pupils	1,272	1,229	43
Instructional Staff	0	0	0
Board of Education	0	0	0
Administration	0	0	0
Fiscal	0	0	0
Business	0	0	0
Operation and Maintenance of Plant	0	0	0
Pupil Transportation	0	0	0
Central	0	0	0
Non-Instructional Services	5,500	5,300	200
Capital Outlay	0	0	0
<i>Total Expenditures</i>	<u>6,772</u>	<u>6,529</u>	<u>243</u>
Excess of Revenues Over (Under) Expenditures	(4,072)	(3,829)	243
<u>Other Financing Sources (Uses):</u>			
Advances Out	0	0	0
Advances In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(4,072)	(3,829)	243
Fund Balances at Beginning of Year	13,170	13,170	0
Prior Year Encumbrances Appropriated	0	0	0
Fund Balances at End of Year	<u>\$9,098</u>	<u>\$9,341</u>	<u>243</u>

See accompanying notes to the general purpose financial statements.

TOTALS (MEMORANDUM ONLY)

<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$1,829,802	\$1,829,802	\$0
48,488	48,488	0
1,043,189	1,043,189	0
2,700	2,700	0
4,233,918	4,233,918	0
818,063	818,063	0
<u>7,976,160</u>	<u>7,976,160</u>	<u>0</u>
1,611,337	987,609	623,728
354,390	298,791	55,599
2,386,703	2,187,884	198,819
378,195	306,862	71,333
39,979	22,104	17,875
3,397,309	2,625,241	772,068
300,448	258,338	42,110
2,500	0	2,500
23,328	14,305	9,023
166,228	147,782	18,446
296,780	276,133	20,647
6,500	6,300	200
25,000	0	25,000
<u>8,988,697</u>	<u>7,131,349</u>	<u>1,857,348</u>
(1,012,537)	844,811	1,857,348
(313,500)	(26,826)	286,674
26,826	26,826	0
(60,000)	0	60,000
<u>(346,674)</u>	<u>0</u>	<u>346,674</u>
(1,359,211)	844,811	2,204,022
2,956,739	2,956,739	0
210,813	210,813	0
<u>\$1,808,341</u>	<u>\$4,012,363</u>	<u>\$2,204,022</u>

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WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

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

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 64 classified, 44 certified, and 24 administrative employees providing educational service to school districts.

Reporting Entity

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

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

The Educational Service Center is associated with five organizations. Two are jointly governed organizations, and three are insurance purchasing pools. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan and the Ohio School Plan. Information about these organizations is presented in Note 14 and Note 15 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant Educational Service Center accounting policies are described below.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Basis of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

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

Fiduciary Fund Type:

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Account Groups:

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within thirty-one days of year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants, interest, tuition, and student fees.

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.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

The measurement focus of governmental and expendable trust 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 and expendable trust funds.

Budgetary Process

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 adopts its budget on or before the start of the new fiscal year. The major documents included in the budget are the estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant, with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each fund and function.

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

Appropriations: The annual appropriation resolution is enacted by 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 not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board of the Educational Service Center.

The 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 as a management control device during the year for all funds.

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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.

Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$47,644, which includes \$10,752 assigned from other Educational Service Center funds.

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 included in equity in pooled cash and cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center does not have a capitalization threshold. The Educational Service Center does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized over the remaining useful lives of the related fixed assets. Assets in the general fixed assets account group are not depreciated.

Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables."

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy.

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

Accrued Liabilities and Long-Term Obligations

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

Fund Balance Reserves

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

Estimates

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

Total Columns on General Purpose Financial Statements

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3 – ACCOUNTABILITY

Fund Deficits

The following funds had deficit fund balances at June 30, 2003:

Special Revenue Funds:

Alternative Schools - Challenge Grant	\$122
Title I-D Alternative Schools	25
Safe and Drug Free Schools	3,993

The deficit in each of these funds is the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. These deficits will be eliminated as future expected revenues are received. These deficits do not exist on the cash basis. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Fund				
	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$685,802	\$234,471	\$361	(\$3,829)
<i>Adjustments:</i>				
Revenue Accruals	(141,758)	14,061	16	0
Expenditure Accruals	88,994	(6,444)	0	0
Advances (Net)	174	(174)	0	0
Encumbrances	(12,475)	(14,388)	0	0
Budget Basis	\$620,737	\$227,526	\$377	(\$3,829)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$2,573,113 and the bank balance was \$2,778,308. Of the bank balance, \$200,000 was covered by federal depository insurance and \$2,578,308 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

	Uncategorized	Fair Value
STAR Ohio	\$1,470,726	\$1,470,726

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

	Equity in Pooled Cash and Cash Equivalents/Deposits	Investments
Combined Balance Sheet	\$4,043,839	\$0
<i>Investments:</i>		
STAR Ohio	(1,470,726)	1,470,726
GASB Statement No. 3	\$2,573,113	\$1,470,726

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - RECEIVABLES

Receivables at June 30, 2003, consisted of accounts, intergovernmental, and interfund. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
<i>General Fund:</i>	
Charges for Services	\$237,015
<i>Special Revenue Funds:</i>	
Alternative School Operating Fund	23,490
Other Grants	45,928
Total Special Revenue Funds	69,418
Total Intergovernmental Receivables	\$306,433

NOTE 7 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2003 follows:

	Restated Balance at June 30, 2002	Additions	Deletions	Balance at June 30, 2003
Building	\$519,915	\$0	\$0	\$519,915
Furniture and Equipment	370,883	45,154	8,800	407,237
Vehicles	3,500	0	0	3,500
Total	\$894,298	\$45,154	\$8,800	\$930,652

NOTE 8 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the Educational Service Center contracted with Motorist Mutual for property insurance. Coverages are provided as follows:

Building and Contents (\$500 deductible)	\$700,000
Automobile Liability (\$500 deductible)	1,000,000
Medical - Each Occurrence	5,000
Uninsured Motorist Liability (\$500 deductible)	1,000,000

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - RISK MANAGEMENT - (Continued)

During fiscal year 2003, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 15)

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

General Liability:

Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Fire Damage Limit - Any One Event	500,000
Medical Expense Limit - Per Person/Accident	10,000

Employee Benefits Liability:

Each Occurrence	1,000,000
Aggregate Limit	3,000,000

Employer's Liability:

Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000

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

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 15). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - RISK MANAGEMENT - (Continued)

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, standalone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, 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 ended June 30, 2002 (the latest information year available), 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$89,177, \$70,798, and \$42,808, respectively, equal to the required contributions for each year.

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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, 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 of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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, 2003, 2002, and 2001 were \$433,237, \$243,777, and \$186,674, respectively, equal to the required contributions for each year.

Social Security System

Effective June 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (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 partial 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.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$33,326 for fiscal year 2003.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information year available) the balance in the Health Care Stabilization Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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 (the latest information year available), employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002 (the latest information year available), 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 2003 fiscal year equaled \$145,924.

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, 2002 (the latest information year available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

Compensated Absences

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators and classified employees earn sick leave at the rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

Health Care Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 15).

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

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

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2003 were as follows:

	Balance at June 30, 2002	Additions	Deductions	Balance at June 30, 2003
Compensated Absences	\$291,758	\$0	\$4,157	\$287,601
Intergovernmental Payable	3,119	9,561	3,119	9,561
Total Long-Term Obligations	<u>\$294,877</u>	<u>\$9,561</u>	<u>\$7,276</u>	<u>\$297,162</u>

Compensated absences and the intergovernmental 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.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 – INTERFUND ACTIVITY

As of June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

Fund	Interfund Receivables	Interfund Payables
<i>General Fund</i>	\$13,326	\$0
<i>Special Revenue Funds:</i>		
Other Grants	0	9,333
Safe and Drug Free School	0	3,993
Total	\$13,326	\$13,326

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent’s designee) from each member district. The Educational Service Center paid SWOCA \$10,394 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler County JVS, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Cooperative

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2003, the Educational Service Center paid \$300 to SOEPC to be a member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 15 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

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

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

Ohio School Plan

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

NOTE 16 - STATE FUNDING

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

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

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 16 - STATE FUNDING - (Continued)

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

NOTE 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.

NOTE 18 - CONTINGENCIES

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003. The Educational Service Center is not currently party to any legal proceedings.

NOTE 19 - NEW ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Disclosures." These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements are effective for the Educational Service Center for the year ending June 30, 2004. The Educational Service Center has not completed an analysis of the impact of these statements on its reported financial condition and results of operations.

WARREN COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 20 - PRIOR PERIOD ADJUSTMENT

The Educational Service Center built an alternative school in 2001 that was not added to the fixed asset records. This resulted in the following change to the fixed asset records.

	<u>Balance at June 30, 2002</u>	<u>Adjustment</u>	<u>Restated Balance at June 30, 2002</u>
Building	\$0	\$519,915	\$519,915
Furniture and Equipment	370,883	0	370,883
Vehicles	<u>3,500</u>	<u>0</u>	<u>3,500</u>
Total	<u><u>\$374,383</u></u>	<u><u>\$519,915</u></u>	<u><u>\$894,298</u></u>



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the Warren County Educational Service Center, Warren County, Ohio (the Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated February 3, 2004.

Internal Control Over Financial Reporting

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

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

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

Betty Montgomery
Auditor of State

February 3, 2004



**Auditor of State
Betty Montgomery**

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**