



**Auditor of State
Betty Montgomery**

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Greene County Educational Service Center, Greene County, (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Center as of and for the year ended June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the Center implemented *GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*. In addition, a prior period restatement was required due to a change in fund structure and a change in the capitalization threshold of capital assets as described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Managements Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 11, 2005

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Greene County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$295,493, which represents a 123.8 percent increase from 2003.
- General revenues accounted for \$1,684,560 in revenue or 15.5 percent of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$9,215,518 or 84.5 percent of total revenues of \$10,900,078.
- Total assets of governmental activities increased by \$288,635. Of this, net capital assets increased by \$2,463 and intergovernmental receivables increased by \$294,217.
- The Educational Service Center had \$10,604,585 in expenses; \$9,215,518 of these expenses was offset by program specific charges for services and operating grants and contributions. General revenues (primarily grants and entitlements) of \$1,684,560 plus net assets at the beginning of the year of \$238,623 provided for these programs.
- The General Fund had \$10,640,196 in revenues and \$10,172,975 in expenditures. The General Fund's balance increased \$467,221 over 2003. The Educational Service Center covers its costs by combining State revenue with the revenue it realizes from the local school districts in the county. The intent is to realize a marginal profit. The districts are charged an estimated "cost of services" each month. At year-end, a reconciliation is performed to figure what a district may still owe or what a district may be owed. Typically, after the estimated amount is established, additional services may be requested. Usually, the revenue to cover these additional expenses is not received until after the reconciliation is performed. On occasion, this revenue is not received until well into the following fiscal year. The Educational Service Center also has programs that are paid for with tuition charged to the districts using these programs. Expenses are realized in the fiscal year, but tuition invoices at the end of the year are typically not paid in a timely manner. The increase in the General Fund balance is due to a combination of estimating the "cost of services" more accurately and, through a more aggressive accounts receivable program for tuition. The timing of cash flow was the reason for the increase.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Greene County Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the Educational Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Educational Service Center reports governmental activities. Governmental activities are the activities where most of the Educational Service Center's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 8. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds

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

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The Educational Service Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole.

Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to 2003:

| Table 1 | | |
|--|-------------|-------------|
| Net Assets | | |
| | 2003 | 2004 |
| Assets | | |
| Current and Other Assets | \$1,671,076 | \$1,957,248 |
| Capital Assets | 669,339 | 671,802 |
| Total Assets | 2,340,415 | 2,629,050 |
| Liabilities | | |
| Long-Term Liabilities | 902,358 | 875,669 |
| Other Liabilities | 1,199,434 | 1,219,265 |
| Total Liabilities | 2,101,792 | 2,094,934 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 186,199 | 247,711 |
| Restricted | 81,804 | 49,875 |
| Unrestricted | (29,380) | 236,530 |
| Total Net Assets | \$238,623 | \$534,116 |

Total assets of governmental activities increased by \$288,635 as capital assets increased by \$2,463 and intergovernmental receivables increased by \$294,217. Intergovernmental receivables increased due to the better estimation of "estimated costs" charges to the districts plus the realization of more tuition revenue. Capital assets increased due to an increase in furniture and equipment. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the Educational Service Center increased by \$265,910, mainly because of these same reasons.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the Educational Service Center has prepared financial statements following *GASB Statement No. 34*, revenue and expense comparisons to 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**Table 2
Changes in Net Assets**

| | 2004 |
|---|-------------|
| Revenues | |
| Program Revenues: | |
| Charges for Services | \$7,845,744 |
| Operating Grants and Contributions | 1,369,774 |
| Total Program Revenues | 9,215,518 |
| General Revenues: | |
| Grants and Entitlements | 1,482,332 |
| Investment Earnings | 2,799 |
| Miscellaneous | 199,429 |
| Total General Revenues | 1,684,560 |
| Total Revenues | 10,900,078 |
| Program Expenses | |
| Instruction: | |
| Regular | \$2,149,614 |
| Special | 2,669,580 |
| Support Services: | |
| Pupils | 2,986,325 |
| Instructional Staff | 1,916,601 |
| Board of Education | 23,517 |
| Administration | 285,255 |
| Fiscal | 180,713 |
| Business | 28,690 |
| Operation and Maintenance of Plant | 196,198 |
| Pupil Transportation | 1,100 |
| Central | 22,557 |
| Operation of Non-Instructional Services | 7,738 |
| Intergovernmental | 113,404 |
| Interest and Fiscal | 23,293 |
| Total Expenses | 10,604,585 |
| Increase in Net Assets | \$295,493 |

Governmental Activities

Instruction comprises 45.4 percent of expenses. Support services expenses make up 53.2 percent of the expenses.

Charges for services of \$7,845,744 make up 71.98% of total revenues of \$10,900,078.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements. Comparisons to 2003 have not been made because they are not available.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 3

| | Total Cost of Services 2004 | Net Cost of Services 2004 |
|---|--|--|
| Instruction | \$4,819,194 | \$611,807 |
| Support Services: | | |
| Pupils | 2,986,325 | (1,042,721) |
| Instructional Staff | 1,916,601 | (669,798) |
| Board of Education | 23,517 | (8,225) |
| Administration | 285,255 | (97,154) |
| Fiscal | 180,713 | (65,972) |
| Business | 28,690 | (9,878) |
| Operation and Maintenance of Plant | 196,198 | (41,757) |
| Pupil Transportation | 1,100 | 189 |
| Central | 22,557 | (16,125) |
| Operation of Non-Instructional Services | 7,738 | 929 |
| Intergovernmental | 113,404 | (27,069) |
| Interest and Fiscal Charges | 23,293 | (23,293) |
| Total Expenses | <u>\$10,604,585</u> | <u>(\$1,389,067)</u> |

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by State law.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Intergovernmental includes on-behalf expenses for the benefit of another local government.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the Educational Service Center.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The Educational Service Center's Funds

Information about the Educational Service Center's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,035,004 and expenditures of \$10,599,696. The net change in fund balance for the year in the General Fund was \$467,221.

The net change in fund balance was caused in the General Fund by an increase in intergovernmental receivables and tuition and fees revenue due to better estimation of "estimated costs" charges to the districts plus the realization of more tuition revenue within the required time to be included as revenue for the fiscal year.

General Fund Budgeting Highlights

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the fiscal year 2004, the Educational Service Center amended its General Fund budget numerous times, which resulted in appropriations increasing \$57,504, a less than one percent increase.

For the General Fund, the budget basis revenue estimate only differed from the original budgeted estimates of \$10,434,242 by (\$181,754) to \$10,252,488, a 1.7 percent decrease. This decrease was due mostly to delays in the receipt of alternative education tuition revenue that the Educational Service Center had originally anticipated collecting in June but actually received in the next fiscal year.

Capital Assets

At the end of the fiscal year 2004, the Educational Service Center had \$671,802 invested in land, land improvements, buildings and improvements, and furniture and equipment.

Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

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

| | 2003 | 2004 |
|----------------------------|-----------|-----------|
| Land | \$161,360 | \$161,360 |
| Land Improvements | 0 | 9,609 |
| Buildings and Improvements | 440,112 | 416,051 |
| Furniture and Equipment | 67,867 | 84,782 |
| Totals | \$669,339 | \$671,802 |

Overall capital assets increased \$2,463 from fiscal year 2003 to fiscal year 2004. Increases in capital assets (primarily land improvements and furniture and equipment) were offset by depreciation expense for the year. The majority of capital assets purchased during fiscal year 2004 were for computers and building improvements. It should be noted that the Educational Service Center, with Governing Board approval, raised the capitalization threshold from \$500 to \$2,500 during fiscal year 2004. Of the \$137,000 spent on equipment in fiscal year 2004, only \$42,501 met the new threshold figure. Combining this along with now recognizing depreciation, assets showed just a slight increase. For more information on capital assets, refer to Note 9 of the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Debt Administration

At June 30, 2004, the Educational Service Center had \$424,091 in total outstanding debt of capital leases. Refer to Notes 14 and 15 of the basic financial statements for additional information.

Current Financial Issues and Concerns

The Educational Service Center provides services at the pleasure of the local school districts in Greene County. The majority of the services are special education in nature. The services these children are to be provided are mandated by IEP's, Individual Education Plans. The districts are required, by law to serve these children. The school districts may provide the service through their own personnel, or contract out to have it provided. Most of the districts rely solely on the Educational Service Center to provide these services, while a few provide them with a combination of the Educational Service Center's staff and their own staff. The Educational Service Center provides services in a cost effective manner to school districts.

One of the Educational Service Center's major concerns revolves around the loss of State support the districts are realizing. The districts are required to make cuts in their general program to make funding available for these special education services they are required to provide. There is very little fear the districts will stop utilizing the Educational Service Center in providing these services. There is a fear the districts could stop using the Educational Service Center to provide services that they are not required to provide.

The Educational Service Center's Alternative Education programs are, for the most part, elective programs. If financial constraints on the districts become large enough, and they choose not to enroll kids in the programs, the programs will fail to support themselves. If this were to happen, the Educational Service Center would terminate these elective programs. The Alternative Education programs account for about \$1,000,000 of the Educational Service Center's annual costs and revenues.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Chip Arledge, Treasurer, at Greene County Educational Service Center, 360 East Enon Road, Yellow Springs, Ohio 45387 or email at gcb_carledge@mveca.org.

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**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$1,039,473 |
| Intergovernmental Receivable | 899,839 |
| Prepaid Items | 17,936 |
| Nondepreciable Capital Assets | 161,360 |
| Depreciable Capital Assets, Net | 510,442 |
| Total Assets | 2,629,050 |
| Liabilities: | |
| Accounts Payable | 14,235 |
| Accrued Wages and Benefits Payable | 915,731 |
| Matured Compensated Absences Payable | 6,080 |
| Intergovernmental Payable | 283,219 |
| Long-Term Liabilities: | |
| Due Within One Year | 122,464 |
| Due in More Than One Year | 753,205 |
| Total Liabilities | 2,094,934 |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 247,711 |
| Restricted for: | |
| Other Purposes | 49,875 |
| Unrestricted | 236,530 |
| Total Net Assets | \$534,116 |

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--|-------------------------|---------------------------------------|--|
| Expenses | Charges for Services | Operating Grants and Contributions | Total Governmental Activities |
| Governmental Activities: | | | |
| Instruction: | | | |
| Regular | \$2,149,614 | \$1,772,567 | \$110,243 |
| Special | 2,669,580 | 2,560,940 | 987,251 |
| Support Services: | | | |
| Pupils | 2,986,325 | 1,786,552 | 157,052 |
| Instructional Staff | 1,916,601 | 1,232,878 | 13,925 |
| Board of Education | 23,517 | 15,292 | |
| Administration | 285,255 | 188,101 | |
| Fiscal | 180,713 | 114,741 | |
| Business | 28,690 | 18,812 | |
| Operation and Maintenance of Plant | 196,198 | 154,441 | |
| Pupil Transportation | 1,100 | | 1,289 |
| Central | 22,557 | 432 | 6,000 |
| Operation of Non-Instructional | | | |
| Services | 7,738 | 988 | 7,679 |
| Intergovernmental | 113,404 | | 86,335 |
| Interest and Fiscal Charges | 23,293 | | |
| Total Governmental Activities | \$10,604,585 | \$7,845,744 | \$1,369,774 |
| General Revenues: | | | |
| Grants and Entitlements not Restricted to Specific Program | | | 1,482,332 |
| Investment Earnings | | | 2,799 |
| Miscellaneous | | | 199,429 |
| Total General Revenues | | | 1,684,560 |
| Change in Net Assets | | | 295,493 |
| Net Assets Beginning of Year - Note 3 | | | 238,623 |
| Net Assets End of Year | | | \$534,116 |

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|---|---|
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$966,660 | \$72,813 | \$1,039,473 |
| Intergovernmental Receivable | 899,773 | 66 | 899,839 |
| Prepaid Items | 17,936 | | 17,936 |
| Total Assets | <u>1,884,369</u> | <u>72,879</u> | <u>1,957,248</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts Payable | 13,819 | 416 | 14,235 |
| Accrued Wages and Benefits Payable | 897,850 | 17,881 | 915,731 |
| Matured Compensated Absences Payable | 6,080 | | 6,080 |
| Intergovernmental Payable | 238,820 | 2,127 | 240,947 |
| Deferred Revenue | 159,408 | | 159,408 |
| Total Liabilities | <u>1,315,977</u> | <u>20,424</u> | <u>1,336,401</u> |
| Fund Balances: | | | |
| Reserved for Encumbrances | 7,793 | 711 | 8,504 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 560,599 | | 560,599 |
| Special Revenue Funds | | 51,744 | 51,744 |
| Total Fund Balances | <u>568,392</u> | <u>52,455</u> | <u>620,847</u> |
| Total Liabilities and Fund Balances | <u>\$1,884,369</u> | <u>\$72,879</u> | <u>\$1,957,248</u> |

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

| | |
|----------------------------------|-----------|
| Total Governmental Fund Balances | \$620,847 |
|----------------------------------|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|---------------------------|------------------|---------|
| Land | 161,360 | |
| Land Improvements | 9,975 | |
| Building and Improvements | 471,862 | |
| Furniture and Equipment | 152,748 | |
| Accumulated Depreciation | <u>(124,143)</u> | |
| | | 671,802 |

Long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

| | |
|------------------|---------|
| Tuition and Fees | 159,408 |
|------------------|---------|

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

| | | |
|-----------------------|------------------|-----------|
| Compensated Absences | (451,578) | |
| Capital Lease Payable | <u>(424,091)</u> | |
| | | (875,669) |

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.

| | |
|---------------------------|-----------------|
| Intergovernmental Payable | <u>(42,272)</u> |
|---------------------------|-----------------|

| | |
|---------------------------------------|-------------------------|
| Net Assets of Governmental Activities | <u><u>\$534,116</u></u> |
|---------------------------------------|-------------------------|

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|---|---|
| Revenues: | | | |
| Intergovernmental | \$2,478,219 | \$382,523 | \$2,860,742 |
| Interest | 2,799 | | 2,799 |
| Tuition and Fees | 1,025,047 | | 1,025,047 |
| Charges for Services | 6,928,343 | 11,447 | 6,939,790 |
| Miscellaneous | 205,788 | 838 | 206,626 |
| Total Revenues | <u>10,640,196</u> | <u>394,808</u> | <u>11,035,004</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 1,997,034 | 114,864 | 2,111,898 |
| Special | 2,637,229 | | 2,637,229 |
| Support Services: | | | |
| Pupils | 2,794,772 | 155,172 | 2,949,944 |
| Instructional Staff | 1,908,083 | 15,631 | 1,923,714 |
| Board of Education | 23,517 | | 23,517 |
| Administration | 290,693 | 500 | 291,193 |
| Fiscal | 176,963 | | 176,963 |
| Business | 28,616 | | 28,616 |
| Operation and Maintenance of Plant | 219,806 | | 219,806 |
| Pupil Transportation | | 1,100 | 1,100 |
| Central | 3,945 | 18,312 | 22,257 |
| Operation of Non-Instructional Services | | 7,738 | 7,738 |
| Capital Outlay | 9,975 | | 9,975 |
| Intergovernmental | | 113,404 | 113,404 |
| Debt Service: | | | |
| Principal Retirement | 59,049 | | 59,049 |
| Interest and Fiscal Charges | 23,293 | | 23,293 |
| Total Expenditures | <u>10,172,975</u> | <u>426,721</u> | <u>10,599,696</u> |
| Net Change in Fund Balances | 467,221 | (31,913) | 435,308 |
| Fund Balances at Beginning of Year - Restated (Note 3) | 101,171 | 84,368 | 185,539 |
| Fund Balances at End of Year | <u>\$568,392</u> | <u>\$52,455</u> | <u>\$620,847</u> |

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$435,308

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

| | | |
|--|----------|-------|
| Capital Outlay | \$42,501 | |
| Current Year Depreciation Expense | (40,038) | |
| | | 2,463 |
| Excess of Capital Outlay over Depreciation Expense | | |

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:

| | | |
|------------------------|--------|--------|
| Capital Lease Payments | 59,049 | |
| | | 59,049 |

Some revenues that will not be collected for several months after the Educational Service Center's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Deferred Revenues changed by these amounts:

| | | |
|---------------------------|-----------|-----------|
| Tuition and Fees | 84,150 | |
| Intergovernmental Revenue | (8,636) | |
| Charges for Services | (203,243) | |
| Miscellaneous | (7,197) | |
| | | (134,926) |

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | | |
|---------------------------------------|----------|----------|
| Increase in Intergovernmental Payable | (34,041) | |
| Increase in Compensated Absences | (32,360) | |
| | | (66,401) |

Change in Net Assets of Governmental Activities \$295,493

See accompanying notes to the basic financial statements.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| | <u>Budgeted Amounts</u> | | | Variance With |
|--|-------------------------|-------------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues: | | | | |
| Intergovernmental | \$2,600,443 | \$2,507,793 | \$2,453,314 | (\$54,479) |
| Interest | 3,000 | 3,000 | 2,860 | (140) |
| Tuition and Fees | 1,266,173 | 1,220,715 | 1,017,548 | (203,167) |
| Charges for Services | 6,375,565 | 6,375,565 | 6,602,688 | 227,123 |
| Miscellaneous | 189,061 | 211,774 | 176,078 | (35,696) |
| Total Revenues | <u>10,434,242</u> | <u>10,318,847</u> | <u>10,252,488</u> | <u>(66,359)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,176,989 | 2,173,693 | 1,990,625 | 183,068 |
| Special | 2,650,484 | 2,683,645 | 2,588,722 | 94,923 |
| Support Services: | | | | |
| Pupils | 2,849,474 | 2,858,468 | 2,735,705 | 122,763 |
| Instructional Staff | 1,954,786 | 1,982,722 | 1,894,505 | 88,217 |
| Board of Education | 34,584 | 35,534 | 24,059 | 11,475 |
| Administration | 333,985 | 326,561 | 289,374 | 37,187 |
| Fiscal | 186,926 | 186,725 | 176,021 | 10,704 |
| Business | 34,331 | 34,440 | 28,859 | 5,581 |
| Operation and Maintenance of Plant | 278,007 | 275,282 | 237,910 | 37,372 |
| Central | 4,000 | 4,000 | 662 | 3,338 |
| Capital Outlay | 80,000 | 80,000 | 73,702 | 6,298 |
| Total Expenditures | <u>10,583,566</u> | <u>10,641,070</u> | <u>10,040,144</u> | <u>600,926</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(149,324)</u> | <u>(322,223)</u> | <u>212,344</u> | <u>534,567</u> |
| Other Financing Sources (Uses): | | | | |
| Refund of Prior Year Expenditure | | | 1,610 | 1,610 |
| Refund of Prior Year Receipts | (196,000) | (196,000) | (195,514) | 486 |
| Total Other Financing Sources (Uses) | <u>(196,000)</u> | <u>(196,000)</u> | <u>(193,904)</u> | <u>2,096</u> |
| Net Change in Fund Balance | (345,324) | (518,223) | 18,440 | 536,663 |
| Fund Balance at Beginning of Year | 922,477 | 922,477 | 922,477 | |
| Prior Year Encumbrances Appropriated | 15,430 | 15,430 | 15,430 | |
| Fund Balance at End of Year | <u>\$592,583</u> | <u>\$419,684</u> | <u>\$956,347</u> | <u>\$536,663</u> |

See accompanying notes to the basic financial statements.

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**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 the 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 Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 76 support staff employees, 81 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 comprised 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 Greene County Educational Service Center, this includes general operations, 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 has no component units.

The Educational Service Center participates in five jointly governed organizations and three insurance purchasing pools. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
- Ohio School Plan

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Greene County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. The statements usually distinguish between those activities that are governmental and those that are business-type. The Educational Service Center has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

2. Fund Financial Statements:

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds of the Educational Service Center are classified as governmental.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds:

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

The following fund is the Educational Service Center's major governmental fund:

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.

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

C. Measurement Focus

1. Government-wide Financial Statements:

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

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "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 fiscal year-end.

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

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

2. Deferred Revenue:

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

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

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

3. Expenses/Expenditures:

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

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. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2004, 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 2004 amounted to \$2,799 which includes \$311 assigned from other Educational Service Center funds.

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.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Capital Assets

The only capital assets are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of two thousand five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------------|------------------------|
| Land Improvements | 15-20 years |
| Building and Improvements | 25-80 years |
| Furniture and Equipment | 5-20 years |

H. Accrued Liabilities and Long-term Obligations

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

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all eligible 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 fifteen years of current service with the Educational Service Center.

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include federal and State grants restricted to expenditures for specified purposes.

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

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance Reserves

The Educational Service Center reserves those portions of fund balance 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.

L. 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 the General Fund or a special revenue fund. For the fiscal year 2004, these special revenue funds included the Title VI-B, Title I, Preschool Grant, and Entry Year Grant.

M. 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.

N. Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the function level for the General Fund and the fund level for all other funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The Board also approves estimated resources, which shows all funding expected to be received for each fund.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE

For fiscal year 2004, the Educational Service Center has implemented *GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*, *GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, *Statement No. 38, "Certain Financial Statement Note Disclosures"*, *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"*, *GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences"*, and *GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."*

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

GASB Statement No. 37 clarifies certain provisions of *GASB Statement No. 34*, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", further defines the guidelines of *GASB Statement No. 14, "The Financial Reporting Entity"*. The implementation of this new statement had no effect on the Educational Service Center's financial statements for fiscal year 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. The implementation of this statement had no effect on the presentation of budgetary statements by the Educational Service Center for fiscal year 2004.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The fund structure of the Educational Service Center changed due to including the Staff Development Enterprise Fund with the General Fund. The Educational Service Center increased the capitalization threshold for capital assets from \$500 to \$2,500.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the Educational Service Center as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE (Continued)

| | <u>General</u> | <u>Non-Major</u> | <u>Total</u> |
|---|------------------|------------------|------------------|
| Fund Balances, June 30, 2003 | \$52,694 | \$84,368 | \$137,062 |
| GASB Interpretation No. 6 | 27,970 | 0 | 27,970 |
| Change in Fund Structure | 20,507 | 0 | 20,507 |
| Adjusted Fund Balance, June 30, 2003 | <u>\$101,171</u> | <u>\$84,368</u> | 185,539 |
| GASB 34 Adjustments: | | | |
| Capital Assets | | | 669,339 |
| Intergovernmental Payable | | | (8,231) |
| Long-Term Liabilities | | | (902,358) |
| Long-Term (Deferred) Assets: | | | |
| Intergovernmental Receivable | | | <u>294,334</u> |
| Governmental Activities Net Assets, June 30, 2003 | | | <u>\$238,623</u> |

4. ACCOUNTABILITY

At June 30, 2004, the Title I Special Revenue Fund had a deficit fund balance of \$108. The General Fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAAP basis operating statements.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

| | |
|---|-----------|
| GAAP Basis | \$467,221 |
| Net Adjustment for Revenue Accruals | (386,404) |
| Net Adjustment for Expenditure Accruals | (52,370) |
| Unrecorded Cash – Fiscal Year 2004 | (245) |
| Unrecorded Cash – Fiscal Year 2003 | 306 |
| Adjustment for Encumbrances | (10,068) |
| Budget Basis | \$18,440 |

6. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Educational Service Center has identified as not required for use within the current 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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including but not limited to 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;

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(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Deposits:

At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$1,039,473 and the bank balance was \$1,449,846. \$100,000 of the bank balance was covered by federal depository insurance and \$1,349,846 is considered uninsured and uncollateralized.

Investments:

The Educational Service Center did not have any investments at fiscal year-end.

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(Continued)**

7. STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Education Service Center's local and client school district an amount equal to \$12 times the school district's total student count and remits this amount to the Education Service Center.

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

8. RECEIVABLES

Intergovernmental receivables at June 30, 2004, consisted of excess costs and tuition from other school districts, along with student fees. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

| | <u>Amounts</u> |
|-------------------------------------|-------------------------|
| Governmental Activities: | |
| Excess Costs | \$707,501 |
| Tuition and Student Fees | 159,408 |
| Other | <u>32,930</u> |
| Total Intergovernmental Receivables | <u><u>\$899,839</u></u> |

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | Restated Balance 6/30/03 | Additions | Deductions | Balance 6/30/04 |
|---|---|------------------|-------------------|----------------------------|
| Governmental Activities | | | | |
| Capital Assets, not Being Depreciated: | | | | |
| Land | \$161,360 | \$0 | \$0 | \$161,360 |
| Capital Assets, Being Depreciated: | | | | |
| Land Improvements | | 9,975 | | 9,975 |
| Building and Improvements | 469,184 | 2,678 | | 471,862 |
| Furniture and Equipment | 122,900 | 29,848 | | 152,748 |
| Total Capital Assets, Being Depreciated | <u>592,084</u> | <u>42,501</u> | | <u>634,585</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | | (366) | | (366) |
| Building and Improvements | (29,072) | (26,739) | | (55,811) |
| Furniture and Equipment | (55,033) | (12,933) | | (67,966) |
| Total Accumulated Depreciation | <u>(84,105)</u> | <u>(40,038)</u> | | <u>(124,143)</u> |
| Capital Assets, Being Depreciated, Net | <u>507,979</u> | <u>2,463</u> | | <u>510,442</u> |
| Governmental Activities Capital Assets, Net | <u>\$669,339</u> | <u>\$2,463</u> | <u>\$0</u> | <u>\$671,802</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|-----------------|
| Instruction: | |
| Regular | \$600 |
| Special | 14,667 |
| Support Services: | |
| Pupils | 4,066 |
| Instructional Staff | 10,749 |
| Administration | 5,000 |
| Fiscal | 2,109 |
| Operation and Maintenance of Plant | 2,547 |
| Central | 300 |
| Total Depreciation Expense | <u>\$40,038</u> |

10. 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 2004, the Educational Service Center contracted with Indiana Insurance Company for property insurance and holds a \$2,500 deductible with \$4,094,380 as the limit.

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(Continued)**

10. RISK MANAGEMENT (Continued)

The Educational Service Center does not own any vehicles. The vehicles owned by employees who travel are covered under a business policy with the Indiana Insurance Company and holds a \$1,000,000 limit on any accident.

During fiscal year 2004, the Educational Service Center along with other school districts in Ohio participated 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 16). The Educational Service Center contracts for education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with OSP.

Insurance coverage provided includes the following:

| | |
|--|-------------|
| Education General Liability: | |
| Each Occurrence and Sexual Abuse Injury Limit | \$1,000,000 |
| Personal and Advertising Injury Limit – Each Offense | 1,000,000 |
| Fire Damage Limit – Any One Event | 500,000 |
| Medical Expense – Any One Person/Each Accident | 10,000 |
| General Aggregate Limit | 3,000,000 |
| Products – Completed Operations Limit | 1,000,000 |
| Employee Benefits Liability: | |
| Each Offense | 1,000,000 |
| Aggregate Limit | 3,000,000 |
| Employer's Liability and Stop Gap: | |
| Each Occurrence | 1,000,000 |
| Disease-Each Employee | 1,000,000 |
| Errors and Omissions Liability (\$2,500 deductible): | |
| Per Occurrence | 1,000,000 |
| Aggregate Limit | 2,000,000 |
| Employment Practices (\$2,500 deductible): | |
| Each Occurrence | 1,000,000 |
| Aggregate Limit | 2,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

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(Continued)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). 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.

C. Medical Benefits

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 16). 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 Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$191,857, \$155,384 and \$97,811, respectively; 100 percent has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$694,235, \$651,410, and \$152,270 respectively; 84.54 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$14,437 made by the Educational Service Center and \$24,156 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees 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.

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio 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 \$53,403 for fiscal year 2004.

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

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(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$145,904.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

13. 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 regular, full-time 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. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 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.

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(Continued)**

13. OTHER EMPLOYEE BENEFITS (Continued)

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 by Anthem through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 16).

C. Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan and the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

14. CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal year 2003, the Educational Service Center entered into a lease-purchase agreement for the purchase and renovation of the land and building where the Educational Service Center is housed, instead of continuing to make rental payments. The initial term of the agreement was July 25, 2002, until June 30, 2003, provided that U. S. Bank and/or the Educational Service Center will have the right to renew for a total of not more than nine additional one-year renewable terms beginning on July 1, 2003. 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 basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Principal payments made during fiscal year 2004 totaled \$59,049 in the General Fund.

The assets acquired through capital leases are as follows:

| | <u>Asset Value</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|---------------------------|------------------------|-------------------------------------|---------------------------|
| Land | \$161,360 | | \$161,360 |
| Building and Improvements | 471,862 | \$55,811 | 416,051 |
| Furniture and Equipment | 76,438 | 63,700 | 12,738 |
| Totals | <u>\$709,660</u> | <u>\$119,511</u> | <u>\$590,149</u> |

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

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(Continued)**

14. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

| <u>Year</u> | <u>Amount</u> |
|--|-----------------|
| 2005 | \$65,276 |
| 2006 | 63,727 |
| 2007 | 63,727 |
| 2008 | 63,727 |
| 2009 | 63,727 |
| 2010-2013 | <u>196,495</u> |
| Total | 516,681 |
| Less: Amount Representing Interest | <u>(92,590)</u> |
| Present Value of Minimum Lease Payment | 424,091 |

15. LONG-TERM OBLIGATIONS

| | <u>Amount</u> | | | <u>Amount</u> | |
|-------------------------------|--------------------|------------------|------------------|--------------------|------------------|
| | <u>Outstanding</u> | | | <u>Outstanding</u> | <u>Due in</u> |
| | <u>6/30/2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>6/30/2004</u> | <u>One Year</u> |
| Compensated Absences Payable | \$419,218 | \$153,095 | \$120,735 | \$451,578 | \$77,457 |
| Capital Lease Obligation | 483,140 | 0 | 59,049 | 424,091 | 45,007 |
| Total Governmental Activities | | | | | |
| Long-Term Obligations | <u>\$902,358</u> | <u>\$153,095</u> | <u>\$179,784</u> | <u>\$875,669</u> | <u>\$122,464</u> |

Compensated absences will be paid from the General Fund and the Other Local Grants Special Revenue Fund. Capital leases will be paid from the General Fund.

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The Educational Service Center is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties. 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 \$27,272 for services provided during the fiscal year. Financial information can be obtained from Norma Stewart, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 Educational Service Centers 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.

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(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. 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 2004, the Educational Service Center paid \$600 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, 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 2004.

Greene County Family and Children First Council - The Greene County Family and Children First Council (Council) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the 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, the Director of the Greene County Department of Human Services, the Executive Director of Greene County's Children Services Board, the Superintendent of Greene County's Board of Mental Retardation and Developmental Disabilities, the Greene County Juvenile Court Judge, the 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 2004, the Educational Service Center made contributions of \$21,943 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.

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(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(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 or licenses. Membership is open to all schools within Greene County, including the Greene County MRDD. The Executive Committee is comprised of a chairperson, vice-chairperson, recorder/clerk, member Superintendent, County Superintendent, chairperson of each subcommittee, and any other person that the committee deems necessary to make sure that every member school district has at least one person on the Executive Committee. The County Superintendent is the only non-voting member. The overall committee structure shall be such that teachers shall comprise the majority of the positions within the committees. There are no fees or charges to be paid by the member school districts. Additional information can be obtained from Jeanne Anderson, Secretary, at P.O. Box 972, Dayton, Ohio 45422.

B. Insurance Purchasing Pools

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 Darke County Educational Service Center and eight other members elected by majority vote of all member Educational Service Centers. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating Educational Service Centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan - The Educational Service Center 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 MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating Educational Service Center serves on the general assembly. Each year, the participating Educational Service Centers pay an enrollment fee to the MBP to cover the costs of administering the program.

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

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

17. 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. This arrangement was made due to the Educational Service Center getting a better interest rate than Sugarcreek Local School District. The Educational Service Center initially received \$541,328 from Banc One Leasing Corporation in exchange for assigning the lease. The Educational Service Center then paid the private citizen who was the seller of the land.

The lease payments are made by Sugarcreek Local School District directly to Banc One Leasing Corporation over five years. Payments are made quarterly at 5.51 percent 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. Therefore, the land has not been recorded on the Educational Service Center's financial statements, nor has the debt. 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. Both the lease agreement, signed by Sugarcreek Local School District and the Educational Service Center, and the assignment agreement, signed by the Educational Service Center and Banc One Leasing Corporation, provide that in the case of default by Sugarcreek Local School District, the Educational Service Center is required to deliver title to the land to Banc One Leasing Corporation. The right to collect rent under the lease has been assigned to Banc One Leasing Corporation. The lease agreement provides that Sugarcreek Local School District pay rent directly to Banc One Leasing Corporation. Banc One Leasing Corporation invoices the Sugarcreek Local School District directly. All the Educational Service Center paid was attorney fees, which the Sugarcreek Local School District reimbursed.

The following schedule shows principal and interest payments to be made for the lease by Sugarcreek Local School District.

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|------------------|-----------------|------------------|
| 2005 | \$117,177 | \$5,733 | \$122,910 |
| 2006 | 30,310 | 417 | 30,727 |
| Total | <u>\$147,487</u> | <u>\$6,150</u> | <u>\$153,637</u> |

18. 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 decision 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 on its financial operations.

**GREENE COUNTY EDUCATIONAL SERVICE CENTER
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

19. CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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 governmental activities, the major fund, and the aggregate remaining fund information of the Greene County Educational Service Center, Greene County, (the Center), as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 11, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We also noted the Center changed the capitalization threshold for capital assets. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions 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 other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the Center's management in a separate letter dated February 11, 2005.

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www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

February 11, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**GREENE COUNTY EDUCATIONAL SCHOOL DISTRICT
GREENE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2005**