



**Auditor of State  
Betty Montgomery**



**WARREN COUNTY EDUCATIONAL SERVICE CENTER  
WARREN COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Warren County Educational Service Center  
Warren County  
320 East Silver Street  
Lebanon, OH 45036

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio (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, each major fund, and the aggregate remaining fund information of the Center, Warren County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General, Alternative School and Other Local Grants 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 a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements<sup>B</sup> and Management's Discussion and Analysis<sup>B</sup> for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 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.

The Management's 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

March 3, 2005

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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The discussion and analysis of the Warren County Educational Service Center's financial performance provides an overview and analysis 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Educational Service Center's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the comparative information in this report for changes in net assets and net cost of governmental activities. Subsequent reports will include the comparative information.

**Financial Highlights**

- ▶ The assets of Warren County Educational Service Center exceeded its liabilities at June 30, 2004 by \$4,582,089. This balance was comprised of a \$1,749,428 balance in capital assets and net asset amounts restricted for specific purposes and a balance of \$2,832,661 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$320,151, which represents a 7.51 percent increase from 2003.
- ▶ General revenues accounted for \$1,995,684 or 24.2 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,250,666 or 75.8 percent of total revenues of \$8,246,350.
- ▶ The Educational Service Center had \$7,926,199 in expenses related to governmental activities; only \$6,250,666 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily grants and entitlements) of \$1,995,684 were used to provide for these programs.
- ▶ The Educational Service Center recognizes three major governmental funds: the General Fund, Alternative School Fund, and Other Local Grants Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Educational Service Center combined. The General Fund had \$5,506,754 in revenues and \$5,488,898 in expenditures in fiscal year 2004.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Warren 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.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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This discussion and analysis is intended to serve as an introduction to the Educational Service Center's basic financial statements. The Educational Service Center's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

**Reporting the Educational Service Center as a Whole**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Educational Service Center's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the Educational Service Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the Educational Service Center as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the Educational Service Center's facility conditions, required but unfunded educational programs, and other factors. Ultimately, the Educational Service Center's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some item that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the Educational Service Center activities are shown as governmental activities. All of the Educational Service Center's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by charges for services, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

**Reporting the Educational Service Center's Most Significant Funds**

**Fund Financial Statements**

Fund financial reports 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 funds are the General Fund, Alternative School Fund, and Other Local Grants Fund.



**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The Educational Service Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Educational Service Center are governmental funds.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the Educational Service Center as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the Educational Service Center's net assets for 2004 compared to fiscal year 2003:

Table 1  
**Net Assets**

|                            | <u>Governmental Activities</u> |                    |
|----------------------------|--------------------------------|--------------------|
|                            | 2004                           | 2003               |
| <b><u>Assets:</u></b>      |                                |                    |
| Current and Other Assets   | \$4,487,455                    | \$4,370,036        |
| Capital Assets, Net        | 708,939                        | 682,972            |
| <i>Total Assets</i>        | <u>5,196,394</u>               | <u>5,053,008</u>   |
| <b><u>Liabilities:</u></b> |                                |                    |
| Long-Term Liabilities      | 196,718                        | 287,601            |
| Other Liabilities          | 417,587                        | 503,469            |
| <i>Total Liabilities</i>   | <u>614,305</u>                 | <u>791,070</u>     |
| <b><u>Net Assets:</u></b>  |                                |                    |
| Invested in Capital Assets | 708,939                        | 682,972            |
| Restricted                 | 1,040,489                      | 871,417            |
| Unrestricted               | 2,832,661                      | 2,707,549          |
| <i>Total Net Assets</i>    | <u>\$4,582,089</u>             | <u>\$4,261,938</u> |

Current and other assets increased \$117,419 from fiscal year 2003 due to an increase in cash and cash equivalents held by the Educational Service Center. Capital assets increased by \$25,967 as a result of purchases of equipment.

Current (other) liabilities decreased \$85,882 due to a decrease of \$163,238 in accrued wages and benefits.

Long-term liabilities decreased \$90,883 due to the decrease in the accrual of compensated absences.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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The Educational Service Center's largest portion of net assets is unrestricted. These net assets represent resources that may be used to meet the Educational Service Center's ongoing obligations to its students and creditors.

The Educational Service Center's smallest portion of net assets is related to amounts invested in capital assets. The Educational Service Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

The remaining balance of \$1,040,489 is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 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 fiscal year 2003 are not available.

Table 2  
**Changes in Net Assets**

|                                      | <u>Governmental<br/>Activities<br/>2004</u> |
|--------------------------------------|---|
| <b><u>Revenues:</u></b>              |   |
| <i>Program Revenue:</i>              |   |
| Charges for Services and Sales       | \$4,622,900                                 |
| Operating Grants and Contributions   | 1,627,766                                   |
| <i>General Revenue:</i>              |   |
| Unrestricted Grants and Entitlements | 1,662,390                                   |
| Investment Earnings                  | 43,678                                      |
| Miscellaneous                        | <u>289,616</u>                              |
| <i>Total Revenues</i>                | <u>8,246,350</u>                            |
| <b><u>Expenses:</u></b>              |   |
| <i>Program Expenses:</i>             |   |
| <i>Instruction:</i>                  |   |
| Regular                              | 964,039                                     |
| Special                              | 471,211                                     |

(Continued)

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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Table 2  
**Changes in Net Assets**  
(Continued)

|   | 2004        |
|---|-------------|
| <i>Support Services:</i>                |             |
| Pupil                                   | 2,705,136   |
| Instructional Staff                     | 282,034     |
| Board of Education                      | 22,058      |
| Administration                          | 2,728,192   |
| Fiscal                                  | 279,681     |
| Operation and Maintenance of Plant      | 39,988      |
| Pupil Transportation                    | 117,822     |
| Central                                 | 309,271     |
| Operation of Non-Instructional Services | 6,767       |
| <i>Total Expenses</i>                   | 7,926,199   |
| <i>Change in Net Assets</i>             | 320,151     |
| Net Assets at Beginning of Year         | 4,261,938   |
| Net Assets at End of Year               | \$4,582,089 |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

The most significant program expenses for the Educational Service Center are Pupil, Administration and Regular Instruction. These programs account for 80.70 percent of the total governmental activities. Pupil, which represents 34.12 percent of the total cost, represents costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Administration, which represents 34.42 percent of the total, represents costs associated with the overall administrative responsibility for each building and the Educational Service Center as a whole. Regular Instruction, which accounts for 12.16 percent of the total, represents costs associated with providing general educational services.

The majority of the funding for the most significant programs indicated above is from charges for services and sales, operating grants and contributions, and grants and entitlements not restricted for specific programs. The funding sources account for 95.92 percent of total revenues.

**Governmental Activities**

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The Educational Service Center is heavily dependent on charges for services and sales, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Charges for services and sales made up 56.04 percent and intergovernmental revenue made up 39.88 percent of the total revenue for the governmental activities in fiscal year 2004.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2004, the Educational Service Center received \$1,351,747 through the State's foundation program, which represents 16.38 percent of the total revenue for the governmental activities. The Educational Service Center relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 18.11 percent of governmental program expenses. Support services expenses make up 81.81 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by charges for services and sales, and operating grants and contributions.

Table 3  
**Net Cost of Governmental Activities**

|   | <u>Total Cost<br/>of Services</u> | <u>Net Cost<br/>of Services</u> |
|---|-----------------------------------|---------------------------------|
|   | <u>2004</u>                       | <u>2004</u>                     |
| <i>Program Expenses:</i>                |                                   |                                 |
| Instruction                             | \$1,435,250                       | \$489,261                       |
| Support Services                        | 6,484,182                         | 1,191,205                       |
| Operation of Non-Instructional Services | 6,767                             | (4,933)                         |
| Total Expenses                          | <u>\$7,926,199</u>                | <u>\$1,675,533</u>              |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues and other financing sources of \$8,295,683 and expenditures and other financing uses of \$8,085,934.

Total governmental funds fund balance increased by \$209,749. The increase in fund balance for the year was most significant in the Other Local Grants Fund, which had an increase of \$66,266 reflecting an increase in local grants received by the Educational Service Center during fiscal year 2004. There was an increase of \$42,752 in the fund balance for the Alternative School Fund, which is the result of decreased spending by the Alternative School. The General Fund had an increase in fund balance of \$27,189, which is due to a decrease in accrued wages for fiscal year 2004.

The Educational Service Center should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 show the Educational Service Center may be unable to meet inflationary cost increases in the long-term without meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**Budget Highlights - General Fund**

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

During the course of fiscal year 2004, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

The Educational Service Center prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$5,554,677 representing a \$702,306 decrease from the original budget estimates of \$6,256,983. The final budget reflected an 11.25 percent decrease from the original budgeted amount. Most of this difference was due to the overestimation of charges for services to be provided by the Educational Service Center. For the General Fund, the final budget basis expenditures were \$7,271,227 representing an increase of \$100,054 from the original budget expenditures of \$7,171,173. The final budget reflected a 1.40 percent increase from the original budgeted amount. Most of the difference is due to initial conservative estimates of expenditures by the Educational Service Center.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the Educational Service Center had \$0.9 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$0.2 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4  
**Capital Assets & Accumulated Depreciation at June 30, 2004**

|                                       | <u>Governmental Activities</u> |           |
|---------------------------------------|--------------------------------|-----------|
|                                       | 2004                           | 2003      |
| <i>Depreciable Capital Assets:</i>    |                                |           |
| Buildings and Improvements            | \$537,715                      | \$519,915 |
| Furniture, Fixtures and Equipment     | 426,628                        | 371,567   |
| <i>Total Capital Assets</i>           | 964,343                        | 891,482   |
| <i>Less Accumulated Depreciation:</i> |                                |           |
| Buildings and Improvements            | 52,585                         | 41,593    |
| Furniture, Fixtures and Equipment     | 202,819                        | 166,917   |
| <i>Total Accumulated Depreciation</i> | 255,404                        | 208,510   |
| Capital Assets, Net                   | \$708,939                      | \$682,972 |

More detailed information pertaining to the Educational Service Center's capital asset activity can be found in the notes to the basic financial statements.

**Debt Administration**

At June 30, 2004, the Educational Service Center had no general obligation debt outstanding.

Detailed information pertaining to the Educational Service Center's only long-term liability activity can be found in the notes to the basic financial statements.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)*

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**Current Issues**

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Educational Service Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

As indicated in the preceding financial information, the Educational Service Center relies on the State's foundation program for nearly half of their funding. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

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

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and 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 received. If you have any questions about this report or need additional information contact Bonnie Milligan, Treasurer of Warren County Educational Service Center, 320 East Silver Street, Lebanon, Ohio 45036.



**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Net Assets*

*June 30, 2004*

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|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b><u>Assets:</u></b>                      |                                    |
| Equity in Pooled Cash and Cash Equivalents | \$4,209,853                        |
| Accounts Receivable                        | 480                                |
| Intergovernmental Receivable               | 270,516                            |
| Prepaid Items                              | 6,606                              |
| Depreciable Capital Assets, Net            | <u>708,939</u>                     |
| <i>Total Assets</i>                        | <u>5,196,394</u>                   |
| <b><u>Liabilities:</u></b>                 |                                    |
| Accounts Payable                           | 46,047                             |
| Accrued Wages and Benefits                 | 295,856                            |
| Intergovernmental Payable                  | 75,684                             |
| <i>Long-Term Liability:</i>                |                                    |
| Due within One Year                        | 45,220                             |
| Due in More Than One Year                  | <u>151,498</u>                     |
| <i>Total Liabilities</i>                   | <u>614,305</u>                     |
| <b><u>Net Assets:</u></b>                  |                                    |
| Invested in Capital Assets                 | 708,939                            |
| <i>Restricted for:</i>                     |                                    |
| Capital Outlay                             | 24,819                             |
| Other Purposes                             | 1,015,670                          |
| Unrestricted                               | <u>2,832,661</u>                   |
| <i>Total Net Assets</i>                    | <u><u>\$4,582,089</u></u>          |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2004*

|   | <u>Program Revenues</u> |   |   | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|---|-------------------------|---|---|--|
|   | <u>Expenses</u>         | <u>Charges for<br/>Services and<br/>Sales</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Governmental<br/>Activities</u>                       |
| <b><u>Governmental Activities:</u></b>                      |                         |   |   |  |
| <i>Instruction:</i>   |                         |   |   |  |
| Regular   | \$964,039               | \$513,432                                     | \$2,200   | (\$448,407)  |
| Special   | 471,211                 | 389,455                                       | 40,902  | (40,854)   |
| <i>Support Services:</i>                                    |                         |   |   |  |
| Pupil   | 2,705,136               | 1,645,059                                     | 1,405,834   | 345,757  |
| Instructional Staff   | 282,034                 | 0   | 72,752  | (209,282)  |
| Board of Education  | 22,058                  | 0   | 0   | (22,058)   |
| Administration  | 2,728,192               | 2,056,629                                     | 0   | (671,563)  |
| Fiscal  | 279,681                 | 0   | 0   | (279,681)  |
| Operation and Maintenance of Plant                          | 39,988                  | 0   | 0   | (39,988)   |
| Pupil Transportation  | 117,822                 | 18,325  | 91,378  | (8,119)  |
| Central   | 309,271                 | 0   | 3,000   | (306,271)  |
| Operation of Non-Instructional Services                     | 6,767                   | 0   | 11,700  | 4,933  |
| <i>Total Governmental Activities</i>                        | <u>\$7,926,199</u>      | <u>\$4,622,900</u>                            | <u>\$1,627,766</u>                                | <u>(1,675,533)</u>                                       |
| <b><u>General Revenues:</u></b>                             |                         |   |   |  |
| Grants and Entitlements not Restricted to Specific Programs |                         |   |   | 1,662,390  |
| Investment Earnings   |                         |   |   | 43,678   |
| Miscellaneous   |                         |   |   | 289,616  |
| <i>Total General Revenues</i>                               |                         |   |   | <u>1,995,684</u>   |
| Change in Net Assets  |                         |   |   | 320,151  |
| <i>Net Assets at Beginning of Year, As Restated</i>         |                         |   |   | <u>4,261,938</u>   |
| <i>Net Assets at End of Year</i>                            |                         |   |   | <u><u>\$4,582,089</u></u>                                |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

|   | General            | Alternative<br>School | Other<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|-----------------------|-----------------------|--------------------------------|--------------------------------|
| <b><u>Assets:</u></b>                         |                    |                       |                       |                                |                                |
| Equity in Pooled Cash and Cash Equivalents    | \$3,040,576        | \$631,292             | \$369,135             | \$168,850                      | \$4,209,853                    |
| Accounts Receivable                           | 480                | 0                     | 0                     | 0                              | 480                            |
| Intergovernmental Receivable                  | 202,783            | 9,090                 | 22,174                | 36,469                         | 270,516                        |
| Interfund Receivable                          | 69,189             | 0                     | 0                     | 0                              | 69,189                         |
| Prepaid Items                                 | 6,606              | 0                     | 0                     | 0                              | 6,606                          |
| <i>Total Assets</i>                           | <u>\$3,319,634</u> | <u>\$640,382</u>      | <u>\$391,309</u>      | <u>\$205,319</u>               | <u>\$4,556,644</u>             |
| <b><u>Liabilities and Fund Balances:</u></b>  |                    |                       |                       |                                |                                |
| <b><u>Liabilities:</u></b>                    |                    |                       |                       |                                |                                |
| Accounts Payable                              | \$43,567           | \$0                   | \$60                  | \$2,420                        | \$46,047                       |
| Accrued Wages and Benefits                    | 212,530            | 28,376                | 44,480                | 10,470                         | 295,856                        |
| Intergovernmental Payable                     | 48,277             | 2,906                 | 8,189                 | 3,422                          | 62,794                         |
| Interfund Payable                             | 0                  | 0                     | 21,553                | 47,636                         | 69,189                         |
| <i>Total Liabilities</i>                      | <u>304,374</u>     | <u>31,282</u>         | <u>74,282</u>         | <u>63,948</u>                  | <u>473,886</u>                 |
| <b><u>Fund Balances:</u></b>                  |                    |                       |                       |                                |                                |
| Reserved for Encumbrances                     | 20,959             | 4,268                 | 163,007               | 60,838                         | 249,072                        |
| <i>Unreserved, Undesignated, Reported in:</i> |                    |                       |                       |                                |                                |
| General Fund                                  | 2,994,301          | 0                     | 0                     | 0                              | 2,994,301                      |
| Special Revenue Funds                         | 0                  | 604,832               | 154,020               | 81,227                         | 840,079                        |
| Capital Projects Funds                        | 0                  | 0                     | 0                     | (694)                          | (694)                          |
| <i>Total Fund Balances</i>                    | <u>3,015,260</u>   | <u>609,100</u>        | <u>317,027</u>        | <u>141,371</u>                 | <u>4,082,758</u>               |
| <i>Total Liabilities and Fund Balances</i>    | <u>\$3,319,634</u> | <u>\$640,382</u>      | <u>\$391,309</u>      | <u>\$205,319</u>               | <u>\$4,556,644</u>             |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Reconciliation of Total Governmental Fund Balances to*

*Net Assets of Governmental Activities*

*June 30, 2004*

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|  |                           |
|--|---------------------------|
| <b>Total Governmental Funds Balances</b>   | \$4,082,758               |
| <br><i>Amounts reported for governmental activities in the statement of<br/>net assets are different because:</i>  |                           |
| Capital assets used in governmental activities are not financial resources<br>and therefore are not reported in the funds.   | 708,939                   |
| Intergovernmental payables include contractually required pension<br>contributions not expected to be paid with expendable available financial<br>resources and therefore are not reported in the funds. | (12,890)                  |
| One liability is not due and payable in the current period and therefore is<br>not reported in the funds. That liability consists of:<br>Compensated absences  | <u>(196,718)</u>          |
| <i>Net Assets of Governmental Activities</i>   | <u><u>\$4,582,089</u></u> |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
 Governmental Funds  
 For the Fiscal Year Ended June 30, 2004

|  | General            | Alternative<br>School | Other<br>Local Grants | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|-----------------------|-----------------------|--------------------------------|--------------------------------|
| <b><u>Revenues:</u></b>                        |                    |                       |                       |                                |                                |
| Intergovernmental                              | \$1,351,747        | \$0                   | \$1,402,609           | \$523,800                      | \$3,278,156                    |
| Interest                                       | 43,422             | 0                     | 0                     | 256                            | 43,678                         |
| Tuition and Fees                               | 364,571            | 676,665               | 0                     | 0                              | 1,041,236                      |
| Charges for Services                           | 3,472,952          | 0                     | 100,378               | 19,066                         | 3,592,396                      |
| Contributions and Donations                    | 0                  | 520                   | 300                   | 11,700                         | 12,520                         |
| Miscellaneous                                  | 274,062            | 250                   | 2,404                 | 1,648                          | 278,364                        |
| <i>Total Revenues</i>                          | <u>5,506,754</u>   | <u>677,435</u>        | <u>1,505,691</u>      | <u>556,470</u>                 | <u>8,246,350</u>               |
| <b><u>Expenditures:</u></b>                    |                    |                       |                       |                                |                                |
| <i>Current:</i>                                |                    |                       |                       |                                |                                |
| <i>Instruction:</i>                            |                    |                       |                       |                                |                                |
| Regular  | 438,243            | 393,523               | 44,480                | 87,873                         | 964,119                        |
| Special  | 391,878            | 55,580                | 0                     | 34,462                         | 481,920                        |
| <i>Support Services:</i>                       |                    |                       |                       |                                |                                |
| Pupil  | 1,267,523          | 48,587                | 1,345,612             | 38,715                         | 2,700,437                      |
| Instructional Staff                            | 159,286            | 0                     | 0                     | 121,011                        | 280,297                        |
| Board of Education                             | 22,041             | 0                     | 0                     | 0                              | 22,041                         |
| Administration                                 | 2,597,496          | 115,165               | 0                     | 109,960                        | 2,822,621                      |
| Fiscal   | 278,334            | 0                     | 0                     | 776                            | 279,110                        |
| Operation and Maintenance of Plant             | 13,767             | 21,828                | 0                     | 0                              | 35,595                         |
| Pupil Transportation                           | 12,848             | 0                     | 0                     | 119,414                        | 132,262                        |
| Central  | 307,482            | 0                     | 0                     | 3,000                          | 310,482                        |
| Operation of Non-Instructional Services        | 0                  | 0                     | 0                     | 6,767                          | 6,767                          |
| Capital Outlay                                 | 0                  | 0                     | 0                     | 950                            | 950                            |
| <i>Total Expenditures</i>                      | <u>5,488,898</u>   | <u>634,683</u>        | <u>1,390,092</u>      | <u>522,928</u>                 | <u>8,036,601</u>               |
| <i>Excess of Revenues (Under) Expenditures</i> | <u>17,856</u>      | <u>42,752</u>         | <u>115,599</u>        | <u>33,542</u>                  | <u>209,749</u>                 |
| <b><u>Other Financing Sources (Uses):</u></b>  |                    |                       |                       |                                |                                |
| Transfers In                                   | 9,333              | 0                     | 0                     | 40,000                         | 49,333                         |
| Transfers Out                                  | 0                  | 0                     | (49,333)              | 0                              | (49,333)                       |
| <i>Total Other Financing Sources (Uses)</i>    | <u>9,333</u>       | <u>0</u>              | <u>(49,333)</u>       | <u>40,000</u>                  | <u>0</u>                       |
| <i>Net Change in Fund Balances</i>             | 27,189             | 42,752                | 66,266                | 73,542                         | 209,749                        |
| <i>Fund Balances at Beginning of Year</i>      | <u>2,988,071</u>   | <u>566,348</u>        | <u>250,761</u>        | <u>67,829</u>                  | <u>3,873,009</u>               |
| <i>Fund Balances at End of Year</i>            | <u>\$3,015,260</u> | <u>\$609,100</u>      | <u>\$317,027</u>      | <u>\$141,371</u>               | <u>\$4,082,758</u>             |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**  
*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*

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**Net Change in Fund Balances - Total Governmental Funds** \$209,749

*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. This is the amount by which capital outlays exceeded depreciation in the current period. 25,967

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 payables | (6,448) |
| Decrease in compensated absences       | 90,883  |
|  | 90,883  |

|  |        |
|--|--------|
| Total expenditures not reported in the funds | 84,435 |
|--|--------|

|  |           |
|--|-----------|
| <i>Change in Net Assets of Governmental Activities</i> | \$320,151 |
|--|-----------|

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund*

*For the Fiscal Year Ended June 30, 2004*

|  | Budgeted Amounts   |                    | Actual             | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|--------------------|---|
|  | Original           | Final              |                    |   |
| <b><u>Revenues:</u></b>  |                    |                    |                    |   |
| Intergovernmental  | \$1,377,630        | \$1,351,747        | \$1,351,747        | \$0   |
| Interest   | 50,000             | 47,559             | 47,559             | 0   |
| Tuition and Fees   | 392,080            | 364,571            | 364,571            | 0   |
| Charges for Services   | 4,046,777          | 3,506,934          | 3,506,934          | 0   |
| Miscellaneous  | 377,170            | 274,533            | 274,533            | 0   |
| <i>Total Revenues</i>  | <u>6,243,657</u>   | <u>5,545,344</u>   | <u>5,545,344</u>   | <u>0</u>  |
| <b><u>Expenditures:</u></b>  |                    |                    |                    |   |
| <i>Current:</i>  |                    |                    |                    |   |
| <i>Instruction:</i>  |                    |                    |                    |   |
| Regular  | 546,304            | 578,763            | 449,158            | 129,605   |
| Special  | 339,900            | 427,841            | 390,673            | 37,168  |
| <i>Support Services:</i>   |                    |                    |                    |   |
| Pupils   | 1,369,452          | 1,405,641          | 1,335,105          | 70,536  |
| Instructional Staff  | 198,131            | 269,893            | 159,484            | 110,409   |
| Board of Education   | 41,501             | 37,501             | 23,330             | 14,171  |
| Administration   | 3,605,660          | 3,393,808          | 2,663,161          | 730,647   |
| Fiscal   | 314,981            | 317,181            | 276,352            | 40,829  |
| Business   | 1,500              | 1,500              | 0                  | 1,500   |
| Operation and Maintenance of Plant   | 20,150             | 20,150             | 13,378             | 6,772   |
| Pupil Transportation   | 17,307             | 17,307             | 12,800             | 4,507   |
| Central  | 356,287            | 371,642            | 324,513            | 47,129  |
| <i>Total Expenditures</i>  | <u>6,811,173</u>   | <u>6,841,227</u>   | <u>5,647,954</u>   | <u>1,193,273</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i>  | <u>(567,516)</u>   | <u>(1,295,883)</u> | <u>(102,610)</u>   | <u>1,193,273</u>  |
| <b><u>Other Financing Sources (Uses):</u></b>  |                    |                    |                    |   |
| Advances Out   | (300,000)          | (370,000)          | (55,863)           | 314,137   |
| Transfers In   | 13,326             | 9,333              | 9,333              | 0   |
| Transfers Out  | (60,000)           | (60,000)           | 0                  | 60,000  |
| <i>Total Other Financing Sources (Uses)</i>  | <u>(346,674)</u>   | <u>(420,667)</u>   | <u>(46,530)</u>    | <u>374,137</u>  |
| <i>Excess of Revenues and Other Financing Sources Over<br/>(Under) Expenditures and Other Financing Uses</i> | <u>(914,190)</u>   | <u>(1,716,550)</u> | <u>(149,140)</u>   | <u>1,567,410</u>  |
| <i>Fund Balance at Beginning of Year</i>   | 3,093,305          | 3,093,305          | 3,093,305          | 0   |
| Prior Year Encumbrances Appropriated   | 12,476             | 12,476             | 12,476             | 0   |
| <i>Fund Balance at End of Year</i>   | <u>\$2,191,591</u> | <u>\$1,389,231</u> | <u>\$2,956,641</u> | <u>\$1,567,410</u>                                      |

See accompanying notes to the basic financial statements and accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*

*Alternative School Fund*

*For the Fiscal Year Ended June 30, 2004*

|   | Budgeted Amounts |                  | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|------------------|------------------|---|
|   | Original         | Final            |                  |   |
| <b><u>Revenues:</u></b>                             |                  |                  |                  |   |
| Tuition and Fees                                    | \$712,800        | \$691,065        | \$691,065        | \$0   |
| Contributions and Donations                         | 0                | 520              | 520              | 0   |
| Miscellaneous                                       | 7,000            | 250              | 250              | 0   |
| <i>Total Revenues</i>                               | <u>719,800</u>   | <u>691,835</u>   | <u>691,835</u>   | <u>0</u>  |
| <b><u>Expenditures:</u></b>                         |                  |                  |                  |   |
| <i>Current:</i>                                     |                  |                  |                  |   |
| <i>Instruction:</i>                                 |                  |                  |                  |   |
| Regular   | 691,131          | 679,135          | 426,139          | 252,996   |
| Special   | 64,775           | 67,775           | 54,908           | 12,867  |
| <i>Support Services:</i>                            |                  |                  |                  |   |
| Pupils  | 57,950           | 59,377           | 45,909           | 13,468  |
| Instructional Staff                                 | 6,250            | 0                | 0                | 0   |
| Administration                                      | 107,730          | 114,443          | 106,977          | 7,466   |
| Operation and Maintenance of Plant                  | 20,860           | 21,716           | 21,716           | 0   |
| <i>Total Expenditures</i>                           | <u>948,696</u>   | <u>942,446</u>   | <u>655,649</u>   | <u>286,797</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (228,896)        | (250,611)        | 36,186           | 286,797   |
| <i>Fund Balance at Beginning of Year</i>            | 585,285          | 585,285          | 585,285          | 0   |
| Prior Year Encumbrances Appropriated                | 5,275            | 5,275            | 5,275            | 0   |
| <i>Fund Balance at End of Year</i>                  | <u>\$361,664</u> | <u>\$339,949</u> | <u>\$626,746</u> | <u>\$286,797</u>  |

See accompanying notes to the basic financial statements and accountant's report.



**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*

*Other Local Grants Fund*

*For the Fiscal Year Ended June 30, 2004*

|  | Budgeted Amounts |                  | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------------|------------------|---|
|  | Original         | Final            |                  |   |
| <b><u>Revenues:</u></b>  |                  |                  |                  |   |
| Intergovernmental  | \$1,343,019      | \$1,429,930      | \$1,429,930      | \$0   |
| Charges for Services   | 210,041          | 96,811           | 96,811           | 0   |
| Contributions and Donations  | 0                | 300              | 300              | 0   |
| Miscellaneous  | 2,000            | 2,404            | 2,404            | 0   |
| <i>Total Revenues</i>  | <u>1,555,060</u> | <u>1,529,445</u> | <u>1,529,445</u> | <u>0</u>  |
| <b><u>Expenditures:</u></b>  |                  |                  |                  |   |
| <i>Current:</i>  |                  |                  |                  |   |
| <i>Support Services:</i>   |                  |                  |                  |   |
| Pupils   | 1,564,160        | 1,732,200        | 1,552,702        | 179,498   |
| <i>Total Expenditures</i>  | <u>1,564,160</u> | <u>1,732,200</u> | <u>1,552,702</u> | <u>179,498</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i>  | <u>(9,100)</u>   | <u>(202,755)</u> | <u>(23,257)</u>  | <u>179,498</u>  |
| <b><u>Other Financing Sources (Uses):</u></b>  |                  |                  |                  |   |
| Advances In  | 0                | 12,220           | 12,220           | 0   |
| Advances Out   | (13,500)         | 0                | 0                | 0   |
| Transfers In   | 70,000           | 0                | 0                | 0   |
| Transfers Out  | (9,333)          | (49,333)         | (49,333)         | 0   |
| <i>Total Other Financing Sources (Uses)</i>  | <u>47,167</u>    | <u>(37,113)</u>  | <u>(37,113)</u>  | <u>0</u>  |
| <i>Excess of Revenues and Other Financing Sources Over<br/>(Under) Expenditures and Other Financing Uses</i> | <u>38,067</u>    | <u>(239,868)</u> | <u>(60,370)</u>  | <u>179,498</u>  |
| <i>Fund Balance at Beginning of Year</i>   | 258,388          | 258,388          | 258,388          | 0   |
| Prior Year Encumbrances Appropriated   | 8,002            | 8,002            | 8,002            | 0   |
| <i>Fund Balance at End of Year</i>   | <u>\$304,457</u> | <u>\$26,522</u>  | <u>\$206,020</u> | <u>\$179,498</u>  |

See accompanying notes to the basic financial statements and the accountant's report.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**Description of the Educational Service Center**

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

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 80 classified, 98 certified, and 3 administrative employees providing educational service to school districts.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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 Warren County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center is associated with five organizations. Two are jointly governed organizations, and three are insurance purchasing pools. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Cooperative (SOEPC), the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan and the Ohio School Plan. Information about these organizations is presented in Note 15 and Note 16 to the basic financial statements.

## **WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 statement consists of government-wide financial 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.

#### **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 distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. 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 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 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. 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 business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

#### **Fund Financial Statements**

During the year, the Educational Service Center segregates transactions related to certain 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. Each major fund is presented in a separate column. Nonmajor 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 self-balancing set of accounts. The funds of the Educational Service Center fall within the category of governmental.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental funds focus 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 are the Educational Service Center's major governmental funds:

**General Fund**- This 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 is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Alternative School Fund**- This fund is the operating fund of the alternative school that is operated by the Educational Service Center for the benefit of eligible students in Warren County.

**Other Local Grants Fund**- This fund is used to account for the proceeds from grants received through local sources.

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

**C. Measurement Focus**

**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.

**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 balance 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.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**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.

**Revenues - Exchange and Nonexchange 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 are collectible 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 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 the fiscal year-end: grants, interest, tuition and charges for services.

**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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**E. Cash and Cash Equivalents**

To improve cash management, 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 records. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

During fiscal year 2004, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2004.

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 \$47,016, which includes \$11,879 assigned from other District funds.

**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 year in which services are consumed.

**G. Capital Assets**

General capital assets are associated with and generally arise from 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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 three hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the 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 reported capital assets, except land and construction in progress, 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:

| Description                       | Estimated Lives |
|-----------------------------------|-----------------|
| Buildings and Improvements        | 20 - 50 years   |
| Furniture, Fixtures and Equipment | 5 - 10 years    |
| Vehicles                          | 10 years        |

**H. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated in the governmental activities column of the statement of net assets.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed 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 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 payments 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 classified and certified employees and administrators who have at least 15 years of service with the Educational Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees will be paid.

**J. Accrued Liabilities and Long-Term Liabilities**

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

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 in the current year.

**K. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist 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.

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

**L. 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.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**M. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2004, the Educational Service Center reported no extraordinary and special items.

**O. Estimates**

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

**P. Budgetary Process**

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

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



**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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

**Appropriations:** The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. Budgetary controls require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of the Educational Service Center.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, several supplemental appropriations were enacted; however, the amendments were not significant.

The final budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

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

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS**

**Changes in Accounting Principles**

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 for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS** - (Continued)

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 present the Educational Service Center's programs as governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

**Restatement of Fund Balances**

The restatements for a fund reclassification, the reclassification of accrued interest revenue and GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the Educational Service Center as they were previously reported.

|   | General            | Alternative<br>School | Other<br>Local<br>Grants | Nonmajor        | Total              |
|---|--------------------|-----------------------|--------------------------|-----------------|--------------------|
| Fund Balances, June 30, 2003                      | <u>\$2,988,071</u> | <u>\$566,348</u>      | <u>\$250,761</u>         | <u>\$67,829</u> | \$3,873,009        |
| <i>GASB 34 Adjustments:</i>                       |                    |                       |                          |                 |                    |
| Capital Assets                                    |                    |                       |                          |                 | 682,972            |
| Intergovernmental Payable                         |                    |                       |                          |                 | (6,442)            |
| <i>Long-Term Obligation:</i>                      |                    |                       |                          |                 |                    |
| Compensated Absences Payable                      |                    |                       |                          |                 | (287,601)          |
| Governmental Activities Net Assets, June 30, 2003 |                    |                       |                          |                 | <u>\$4,261,938</u> |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 4 - ACCOUNTABILITY**

**Fund Deficits**

The following funds had a deficit fund balance as of June 30, 2004:

|  | <u>Deficit Fund Balance</u> |
|--|-----------------------------|
| <i>Nonmajor Special Revenue Funds:</i> |                             |
| Instructional Media Center             | \$58                        |
| Alternative Schools - Challenge Grant  | 5,217                       |
| Safe and Drug Free Schools             | 8,335                       |

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**NOTE 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 and described earlier 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 and Actual (Budget Basis) is presented for the General Fund, Alternative School Fund, and Other Local Grants Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund, Alternative School Fund, and Other Local Grants Fund.

|                      | Net Change in Fund Balance |                    |                    |
|----------------------|----------------------------|--------------------|--------------------|
|                      | General                    | Alternative School | Other Local Grants |
| GAAP Basis           | \$27,189                   | \$42,752           | \$66,266           |
| <i>Adjustments:</i>  |                            |                    |                    |
| Revenue Accruals     | 38,590                     | 14,400             | 23,754             |
| Expenditure Accruals | (75,125)                   | (16,420)           | 504                |
| Encumbrances         | (83,931)                   | (4,546)            | (163,114)          |
| Other Sources (Uses) | (55,863)                   | 0                  | 12,220             |
| Budget Basis         | <u>(\$149,140)</u>         | <u>\$36,186</u>    | <u>(\$60,370)</u>  |

**NOTE 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 Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any 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 that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

**Deposits:** At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$2,974,694, and the bank balance was \$3,150,153. Of the bank balance, \$200,000 was covered by federal depository insurance; and \$2,950,153 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

|             | <u>Carrying Value</u> | <u>Fair Value</u>  |
|-------------|-----------------------|--------------------|
| STAR Ohio   | \$1,235,159           | \$1,235,159        |
| Investments | <u>\$1,235,159</u>    | <u>\$1,235,159</u> |

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

|                      | <u>Cash and Cash<br/>Equivalents/Deposits</u> | <u>Investments</u> |
|----------------------|---|--------------------|
| GASB Statement No. 9 | \$4,209,853                                   | \$0                |
| <i>Investments:</i>  |   |                    |
| STAR Ohio            | (1,235,159)                                   | 1,235,159          |
| GASB Statement No. 3 | <u>\$2,974,694</u>                            | <u>\$1,235,159</u> |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of accounts, intergovernmental, and interfund. All receivables are considered collectible in full due to the stable condition of State program and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

|  |                                   |
|--|-----------------------------------|
| Governmental Activities:               |                                   |
| <hr/>                                  |                                   |
| <i>General Fund:</i>                   |                                   |
| Charges for Services                   | \$202,783                         |
| <i>Alternative School</i>              | 9,090                             |
| <i>Other Local Grants</i>              | 22,174                            |
| <i>Nonmajor Special Revenue Funds:</i> |                                   |
| Challenge Grant                        | 12,170                            |
| Other State Grants                     | 8,400                             |
| Title III                              | 4,536                             |
| Title I-D                              | 11,363                            |
| Total Nonmajor Special Revenue Funds   | <hr/> 36,469 <hr/>                |
| Total Intergovernmental Receivables    | <hr/> <hr/> \$270,516 <hr/> <hr/> |

**NOTE 8 - CAPITAL ASSETS**

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

| Asset Category                     | Balance at<br>July 1, 2003 | Transfers/<br>Additions | Transfers/<br>Deletions | Balance at<br>June 30, 2004       |
|------------------------------------|----------------------------|-------------------------|-------------------------|-----------------------------------|
| <i>Depreciable Capital Assets:</i> |                            |                         |                         |                                   |
| Buildings and Improvements         | \$519,915                  | \$17,800                | \$0                     | \$537,715                         |
| Furniture, Fixtures and Equipment  | 371,567                    | 55,376                  | (315)                   | 426,628                           |
| Total Capital Assets               | <hr/> 891,482              | <hr/> 73,176            | <hr/> (315)             | <hr/> 964,343 <hr/>               |
| <i>Accumulated Depreciation:</i>   |                            |                         |                         |                                   |
| Buildings and Improvements         | (41,593)                   | (10,992)                | 0                       | (52,585)                          |
| Furniture, Fixtures and Equipment  | (166,917)                  | (36,217)                | 315                     | (202,819)                         |
| Total Accumulated Depreciation     | <hr/> (208,510)            | <hr/> (47,209)          | <hr/> 315               | <hr/> (255,404) <hr/>             |
| Total Net Capital Assets           | <hr/> <hr/> \$682,972      | <hr/> <hr/> \$25,967    | <hr/> <hr/> \$0         | <hr/> <hr/> \$708,939 <hr/> <hr/> |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 8 - CAPITAL ASSETS** - (Continued)

Depreciation expense was charged to governmental functions as follow:

|                            |                        |
|----------------------------|------------------------|
| <i>Instruction:</i>        |                        |
| Regular                    | \$22,751               |
| Special                    | 439                    |
| <i>Support Services:</i>   |                        |
| Pupil                      | 8,377                  |
| Instructional Staff        | 1,091                  |
| Administration             | 10,615                 |
| Fiscal                     | 3,220                  |
| Pupil Transportation       | 592                    |
| Capital Outlay             | 124                    |
| Total Depreciation Expense | <u><u>\$47,209</u></u> |

**NOTE 9 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the Educational Service Center contracted with Indiana Insurance for property. Coverages provided are as follows:

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

During fiscal year 2004, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual entity 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)



**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 9 - RISK MANAGEMENT - (Continued)**

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

|   |             |
|---|-------------|
| <i>General Liability:</i>                       |             |
| Each Occurrence                                 | \$1,000,000 |
| Aggregate Limit                                 | 1,000,000   |
| Products - Completed Operations Aggregate Limit | 1,000,000   |
| Fire Damage Limit - Any One Event               | 500,000     |
| Medical Expenses Limit - Per Person/Accident    | 10,000      |
| <i>Employee Benefits Liability:</i>             |             |
| Each Occurrence                                 | 1,000,000   |
| Aggregate Limit                                 | 3,000,000   |
| <i>Employer's Liability:</i>                    |             |
| Each Occurrence                                 | 1,000,000   |
| Disease - Each Employee                         | 1,000,000   |
| Disease - Policy Limit                          | 1,000,000   |

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

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 EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

For fiscal year 2004, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The 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.

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 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 the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, 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 \$183,450, \$89,177, and \$70,798, respectively, equal to the required contributions for each year.

**State Teachers Retirement System**

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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.

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS** - (Continued)

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.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is 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 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$464,014, \$433,237, and \$243,777, respectively, equal to the required contributions for each year.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, one member of the Educational Service Center's Board has elected Social Security.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the 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 \$35,693 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available.) For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 11 - POSTEMPLOYMENT BENEFITS** - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 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 has been established at \$24,500. 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 annual health care expenses. Expenses for health care at 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. The number of participants currently receiving health care benefits is approximately 62,000. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, equaled \$105,534 during the 2004 fiscal year.

**NOTE 12 - EMPLOYEE BENEFITS**

**Compensated Absences**

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

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

**Health Care Benefits**

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

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 16).

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 12 - EMPLOYEE BENEFITS** - (Continued)

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

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

**NOTE 13 - LONG-TERM LIABILITY**

The changes in the Educational Service Center's long-term liability during fiscal year 2004 were as follows:

|                                 | <u>Principal<br/>Outstanding at<br/>July 1, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Principal<br/>Outstanding at<br/>June 30, 2004</u> | <u>Amount Due<br/>In One Year</u> |
|---------------------------------|--|------------------|-------------------|---|-----------------------------------|
| <i>Governmental Activities:</i> |  |                  |                   |   |                                   |
| Compensated Absences Payable    | \$287,601  | \$193,244        | \$284,127         | \$196,718   | \$45,220                          |

Compensated absences will be paid from the fund from which the employee is paid.

**NOTE 14 - INTERFUND ACTIVITY**

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

| <u>Fund</u>                            | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|--|----------------------------------|-------------------------------|
| <i>General Fund</i>                    | \$69,189                         | \$0                           |
| <i>Other Local Grants Fund</i>         | 0                                | 21,553                        |
| <i>Nonmajor Special Revenue Funds:</i> |                                  |                               |
| Challenge Grant                        | 0                                | 19,615                        |
| Other State Grants                     | 0                                | 2,312                         |
| Title III                              | 0                                | 5,403                         |
| Title I-D                              | 0                                | 11,363                        |
| Safe and Drug Free Schools             | 0                                | 8,943                         |
| Total Nonmajor Special Revenue Funds   | <u>0</u>                         | <u>47,636</u>                 |
| Total                                  | <u><u>\$69,189</u></u>           | <u><u>\$69,189</u></u>        |

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

**NOTE 14 - INTERFUND ACTIVITY** - (Continued)

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

| Fund                                  | Transfers<br>In | Transfers<br>Out |
|---------------------------------------|-----------------|------------------|
| <i>General Fund</i>                   | \$9,333         | \$0              |
| <i>Other Local Grants Fund</i>        | 0               | 49,333           |
| <i>Nonmajor Special Revenue Fund:</i> |                 |                  |
| Principal                             | 40,000          | 0                |
| Totals                                | <u>\$49,333</u> | <u>\$49,333</u>  |

Transfers are generally used to either (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, or (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS**

**Southwest Ohio Computer Association**

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district. The Educational Service Center paid SWOCA \$3,739 for services provided during the year. Financial information can be obtained from the fiscal agent, Butler County JVS, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

**Southwestern Ohio Educational Purchasing Cooperative**

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS** - (Continued)

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2004, the Educational Service Center paid \$300 to SOEPC to be a member. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**NOTE 16 - INSURANCE PURCHASING POOLS**

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan**

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

**Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan**

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

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

**Ohio School Plan**

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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004*

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**NOTE 17 - STATE FUNDING**

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

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

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

**NOTE 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 plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

The Educational Service Center is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NOTE 19 - CONTINGENCIES**

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





## **Auditor of State Betty Montgomery**

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

Warren County Educational Service Center  
Warren County  
320 East Silver Street  
Lebanon, OH 45036

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Warren County Educational Service Center, Warren County, Ohio (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 March 3, 2005. 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Center's management in a separate letter dated March 3, 2005.

#### **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 management of the Center in a separate letter dated March 3, 2005.

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

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

**Betty Montgomery**  
Auditor of State

March 3, 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

**WARREN COUNTY EDUCATIONAL SERVICE CENTER  
WARREN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 22, 2005**