



**Auditor of State  
Betty Montgomery**



EDUCATIONAL SERVICE CENTER  
CLARK COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Clark County Educational Service Center  
Clark County  
1211 Old Mill Road  
Springfield, Ohio 45506

To the Governing Board:

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

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Clark County Educational Service Center, Clark County, as of June 30, 2003, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2003, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

December 24, 2003

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**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003**

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<b>Assets and Other Debits</b>					
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$755,265	\$104,126			\$859,391
Receivables:					
Intergovernmental	96,097	15,649			111,746
Interfund	15,430				15,430
Fixed Assets			\$310,408		310,408
Other Debits:					
Amount to be Provided for Retirement of General Long-Term Obligations				\$136,892	136,892
<b>Total Assets and Other Debits</b>	<u>866,792</u>	<u>119,775</u>	<u>310,408</u>	<u>136,892</u>	<u>1,433,867</u>
<b>Liabilities, Fund Equity and Other Credits</b>					
<b>Liabilities:</b>					
Accounts Payable	7,931	7,434			15,365
Accrued Wages and Benefits Payable	408,212	21,786			429,998
Intergovernmental Payable	80,288	1,973		8,163	90,424
Interfund Payable		15,430			15,430
Compensated Absences Payable	14,425			75,349	89,774
Deferred Revenue	25,978	7,000			32,978
Capital Lease Obligation				53,380	53,380
<b>Total Liabilities</b>	<u>536,834</u>	<u>53,623</u>		<u>136,892</u>	<u>727,349</u>
<b>Fund Equity and Other Credits:</b>					
Investment in General Fixed Assets			310,408		310,408
Fund Balance:					
Reserved for Encumbrances	41,623	13,345			54,968
Unreserved, Undesignated	288,335	52,807			341,142
<b>Total Fund Equity and Other Credits</b>	<u>329,958</u>	<u>66,152</u>	<u>310,408</u>		<u>706,518</u>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<u>\$866,792</u>	<u>\$119,775</u>	<u>\$310,408</u>	<u>\$136,892</u>	<u>\$1,433,867</u>

See accompanying notes to the general purpose financial statements.

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Revenues:</b>				
Tuition and Fees	\$1,508,823			\$1,508,823
Interest	5,883			5,883
Intergovernmental	1,745,280	\$319,588		2,064,868
Charges for Services	1,477,808			1,477,808
Gifts and Donations		3,000		3,000
Miscellaneous	13,251			13,251
Total Revenues	<u>4,751,045</u>	<u>322,588</u>		<u>5,073,633</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	278,587	38,368		316,955
Special	921,838	60,496		982,334
Support Services:				
Pupils	1,110,302	10,642		1,120,944
Instructional Staff	1,288,797	189,487		1,478,284
Board of Education	25,686			25,686
Administration	759,567	6,132	\$3,298	768,997
Fiscal	103,926			103,926
Business	68,194			68,194
Operation and Maintenance of Plant	9,626			9,626
Capital Outlay	60,070			60,070
Intergovernmental		78,626		78,626
Debt Service:				
Principal Retirement	10,629			10,629
Interest and Fiscal Charges	4,795			4,795
Total Expenditures	<u>4,642,017</u>	<u>383,751</u>	<u>3,298</u>	<u>5,029,066</u>
Excess of Revenues Over (Under) Expenditures	109,028	(61,163)	(3,298)	44,567
Other Financing Source:				
Inception of Capital Lease	60,070			60,070
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	169,098	(61,163)	(3,298)	104,637
Fund Balances at Beginning of Year	<u>160,860</u>	<u>127,315</u>	<u>3,298</u>	<u>291,473</u>
Fund Balances at End of Year	<u>\$329,958</u>	<u>\$66,152</u>	<u>\$0</u>	<u>\$396,110</u>

See accompanying notes to the general purpose financial statements.



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**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>						
Tuition and Fees	\$1,464,190	\$1,464,190				
Interest	5,883	5,883				
Intergovernmental	1,720,957	1,720,957		\$432,927	\$320,488	(\$112,439)
Charges for Services	1,606,533	1,606,533				
Miscellaneous	13,251	13,251				
<b>Total Revenues</b>	<u>4,810,814</u>	<u>4,810,814</u>		<u>432,927</u>	<u>320,488</u>	<u>(112,439)</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	273,269	270,117	3,152	24,542	38,298	(13,756)
Special	864,530	894,608	(30,078)	47,989	61,152	(13,163)
Support Services:						
Pupils	1,003,468	1,045,579	(42,111)	6,955	19,426	(12,471)
Instructional Staff	1,574,087	1,440,011	134,076	483,710	292,594	191,116
Board of Education	30,634	26,029	4,605			
Administration	729,418	783,730	(54,312)	7,798	6,132	1,666
Fiscal	98,413	101,774	(3,361)			
Business	70,901	74,957	(4,056)			
Operation and Maintenance of Plant	18,515	9,926	8,589			
Central	500	500				
<b>Total Expenditures</b>	<u>4,663,735</u>	<u>4,646,731</u>	<u>17,004</u>	<u>570,994</u>	<u>417,602</u>	<u>153,392</u>
Excess of Revenues Over (Under) Expenditures	<u>147,079</u>	<u>164,083</u>	<u>17,004</u>	<u>(138,067)</u>	<u>(97,114)</u>	<u>40,953</u>
<b>Other Financing Sources (Uses):</b>						
Refund of Prior Year Expenditure	18,824	18,824				
Refund of Prior Year Receipts		(87)	(87)	(5,135)	(5,135)	
Advances-In	5,135	5,135		20,565	20,565	
Advances-Out	(20,565)	(20,565)		(5,135)	(5,135)	
<b>Total Other Financing Sources (Uses)</b>	<u>3,394</u>	<u>3,307</u>	<u>(87)</u>	<u>10,295</u>	<u>10,295</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>150,473</u>	<u>167,390</u>	<u>16,917</u>	<u>(127,772)</u>	<u>(86,819)</u>	<u>40,953</u>
Fund Balances at Beginning of Year	473,714	473,714		63,558	63,558	
Prior Year Encumbrances Appropriated	64,606	64,606		106,624	106,624	
<b>Fund Balances at End of Year</b>	<u>\$688,793</u>	<u>\$705,710</u>	<u>\$16,917</u>	<u>\$42,410</u>	<u>\$83,363</u>	<u>\$40,953</u>

See accompanying notes to the general purpose financial statements.

Capital Projects Funds			Total (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
			\$1,464,190	\$1,464,190	
			5,883	5,883	
			2,153,884	2,041,445	(\$112,439)
			1,606,533	1,606,533	
			13,251	13,251	
			<u>5,243,741</u>	<u>5,131,302</u>	<u>(112,439)</u>
			297,811	308,415	(10,604)
			912,519	955,760	(43,241)
			1,010,423	1,065,005	(54,582)
			2,057,797	1,732,605	325,192
			30,634	26,029	4,605
\$3,298	\$3,298		740,514	793,160	(52,646)
			98,413	101,774	(3,361)
			70,901	74,957	(4,056)
			18,515	9,926	8,589
			500	500	500
<u>3,298</u>	<u>3,298</u>		<u>5,238,027</u>	<u>5,067,631</u>	<u>170,396</u>
<u>(3,298)</u>	<u>(3,298)</u>		<u>5,714</u>	<u>63,671</u>	<u>57,957</u>
			18,824	18,824	
			(5,135)	(5,222)	(87)
			25,700	25,700	
			<u>(25,700)</u>	<u>(25,700)</u>	
			<u>13,689</u>	<u>13,602</u>	<u>(87)</u>
<u>(3,298)</u>	<u>(3,298)</u>		<u>19,403</u>	<u>77,273</u>	<u>57,870</u>
<u>3,298</u>	<u>3,298</u>		<u>537,272</u>	<u>537,272</u>	
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>174,528</u>	<u>174,528</u>	
			<u>\$731,203</u>	<u>\$789,073</u>	<u>\$57,870</u>

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**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

The Clark County Educational Service Center (the "Educational Service Center") is located in Springfield, Ohio, the county seat. The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services by state and federal agencies. The Board controls the District's 42 support staff employees and 54 certified employees who provide services to the staff and students of the six local school districts.

The Clark County Educational Service Center was established in 1914 in response to recommendations from the Ohio State School Survey Commission. Senate Bill 9, passed on February 4, 1914, provided for the standardization of schools and established the county educational service center.

Since 1914, county superintendents have been involved in various areas of administration and perform many services, which include, but are not limited to the following: cooperative programs, supervision, liaison between local school districts and the Department of Education, health insurance programs, and special education services. Many of those services have been initiated by the county office of education without being legislatively mandated.

The Educational Service Center consists of five elected board members, a superintendent, a treasurer, and employees. The Clark County Educational Service Center is a chartered school district and was chartered July 21, 1989, by the State Board of Election.

The Educational Service Center serves six local school districts: Greenon Local, Northeastern Local, Northwestern Local, Southeastern Local, Clark-Shawnee Local and Tecumseh Local. It also works with the Springfield/Clark County JVS in the areas of inservice of administrators. Springfield City Schools and the Educational Service Center have entered into a city/county agreement to provide services in designated areas.

Under Senate Bill 140, county educational service centers are required to appoint business advisory councils. The Educational Service Center has appointed a Business Advisory Council, which is strictly voluntary on the part of the members. There is no financial responsibility of the Educational Service Center for this council.

**A. Reporting Entity:**

A reporting entity is composed 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 the Educational Service Center, this includes all general operations.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes. The Educational Service Center does not have any component units.

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

The Educational Service Center is associated with four organizations which are defined as jointly governed organizations and three insurance purchasing pools. These organizations include the Miami Valley Educational Computer Association (MVECA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Clark County Family and Children First Council (Council), the Springfield/Clark County Joint Vocational School, the Southwestern Ohio Educational Purchasing Council Worker's Compensation Group Rating Plan, the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Ohio School Plan. Information about these organizations is presented in Note 17 to the general purpose financial statements.

**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 - Fund Accounting**

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

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

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

**1. Governmental Fund Types:**

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

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

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

**Capital Projects Fund** - The capital project fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**2. Account Groups:**

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

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

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

**B. Measurement Focus and Basis of Accounting**

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

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

The modified accrual basis of accounting is followed for the governmental funds.

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

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

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

**C. Budgetary Process**

The budgetary process is prescribed by provisions of section 3317.11 of the Ohio Revised Code and entails 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. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are budgeted and appropriated.

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

**1. Appropriations:**

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



**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the fiscal year, one supplemental appropriation was enacted; however, the amendment was not significant.

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

**2. Encumbrances:**

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

**3. Lapsing of Appropriations:**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

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

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2003 amounted to \$5,883 which includes \$1,827 assigned from other Educational Service Center funds.

For presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

**E. Interfund Assets/Liabilities**

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

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**F. Fixed Assets and Depreciation**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized.

Assets in the General Fixed Asset Account Group are not depreciated.

**G. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after ten years of current service with the Educational Service Center.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group.

**H. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension obligations that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources. Capital leases are reported as a liability of the General Long-Term Obligations Account Group until due.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**I. Fund Balance Reserves**

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

**J. Interfund Transactions**

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

**K. Pass-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For the fiscal year 2003, these funds included the Preschool Grant Special Revenue Fund.

**L. Estimates**

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

**M. Total Columns on General Purpose Financial Statements**

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

**3. RESTATEMENT OF BALANCES**

The General Fixed Assets Account Group was restated at June 30, 2002, due to a calculation error. Fixed assets decreased by \$38,988 from \$316,591 to \$277,603.

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

**4. ACCOUNTABILITY**

The Power Choices and Parent Mentor Special Revenue Funds had deficit fund balances of \$6,916 and \$241, respectively at June 30, 2003. The deficits in these funds were created by the application of generally accepted accounting principles. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is needed, rather than when accruals occur.

**5. BUDGETARY BASIS OF ACCOUNTING**

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP are that:

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

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

**Excess of Revenues and Other Financing Sources Over  
(Under) Expenditures and Other Financing Uses  
All Governmental Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
GAAP Basis	\$169,098	(\$61,163)	(\$3,298)
Adjustments:			
Revenue Accruals	78,593	(2,100)	0
Expenditure Accruals	(15,316)	(18,223)	0
Advances	(15,430)	15,430	0
Outstanding Encumbrances	(49,555)	(20,763)	0
Budget Basis	<u>\$167,390</u>	<u>(\$86,819)</u>	<u>(\$3,298)</u>

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

**6. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

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

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

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

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

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

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

**Deposits:** At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$758,551 and the bank balance was \$904,160. Of the bank balance, \$154,555 was covered by federal deposit insurance and \$749,605 was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

**Investments:** The Educational Service Center's investments are 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 which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name.

The Educational Service Center's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. STAR Ohio had a fair value of \$100,840 at June 30, 2003.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
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**6. DEPOSITS AND INVESTMENTS (Continued)**

	<b>Cash and Cash Equivalents/Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$859,391	\$0
Investment of the Cash Management Pool:		
STAR Ohio	(100,840)	100,840
GASB Statement No. 3	\$758,551	\$100,840

**7. STATE FUNDING**

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

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

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment. The local school districts under the Educational Service Center pay an additional \$4.50 per student and the city school district pays an additional \$6.50 per student.

**8. RECEIVABLES**

Receivables at June 30, 2003, consisted of intergovernmental (excess costs, tuition from other school districts, and grants) and interfund. All receivables are considered collectible in full. The summary of the principal items of intergovernmental receivables follows:

	<b>Amounts</b>
General Fund:	
Excess Costs	\$62,855
CAFS	8,242
Turner Foundation Grant	25,000
Total General Fund	96,097
Special Revenue Funds:	
Power Choices	3,649
Autism Disorders Grant	12,000
Total Special Revenue Funds	15,649
Total Intergovernmental Receivables	\$111,746

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**9. FIXED ASSETS**

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

<u>Asset Category</u>	<u>Restated Balance at June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2003</u>
Furniture and Equipment	\$255,623	\$90,341	\$57,536	\$288,428
Vehicles	21,980			21,980
Total	<u>\$277,603</u>	<u>\$90,341</u>	<u>\$57,536</u>	<u>\$310,408</u>

**10. RISK MANAGEMENT**

**A. Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the Educational Service Center contracted with Consolidated Insurance Company for property insurance with a \$100 deductible.

During fiscal year 2003, the Educational Service Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 17). The Educational Service Center contracts for fleet insurance, education general liability, employee benefits liability, and employer's liability and stop gap with OSP.

Insurance coverage provided includes the following:

Fleet Liability (\$100 deductible)	\$1,000,000
Auto Medical Payments (\$100 deductible)	5,000
Uninsured Motorists (\$100 deductible)	250,000
Education General Liability:	
Each Occurrence	1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
Fire Damage Limit – Any One Event	500,000
Medical Expense – Any One Person/Each Accident	10,000
General Aggregate Limit	3,000,000
Products – Completed Operations Limit	1,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000

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



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

**10. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP.

The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control and actuarial services to the GRP.

**C. Medical Benefits**

For fiscal year 2003, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 17). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the Southwestern Ohio Educational Purchasing Council (SOEPC). Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

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

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

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$69,032, \$92,345, and \$91,666, respectively. One hundred percent was contributed for all three fiscal years.

**B. State Teachers Retirement System of Ohio**

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$356,207, \$303,531, and \$284,561, respectively; 83 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$140 made by the Educational Service Center and \$4,513 made by the plan members.

**C. Social Security System**

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

**12. POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$27,401 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 eligible benefit recipients.

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

**12. POSTEMPLOYMENT BENEFITS (Continued)**

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$55,292.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**13. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation, personal and sick leave benefits are derived from board policy and State laws. All twelve month certified employees earn twenty days of vacation per fiscal year; eleven month certified employees earn fifteen days of vacation per fiscal year and ten month certified employees earn ten days of vacation per fiscal year. Teachers do not earn vacation time.

Support staff employees earn ten days of vacation after one year of service; after eight years of service they earn fifteen days of vacation; with fifteen years of service they earn twenty days of vacation and after twenty-five years of service they earn twenty-five days of vacation.

Accumulated, unused vacation must be used by October of the fiscal year following the fiscal year in which it is earned.

All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract in which it is earned.

All 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 250 days for all personnel. Upon retirement, payment is made for one-fifth of accrued, but unused sick leave credit to a maximum of 45 days for all employees. Directors with two years experience with the Educational Service Center are eligible to be paid a maximum of 56 days of unused sick leave upon retirement.

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

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

**B. Insurance Benefits**

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Company. Medical/surgical benefits are provided by United Health Care through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 17). During fiscal year 2003, the Governing Board passed a resolution to change the employees' share of medical/surgical benefits from 0 percent to 20 percent.

**C. Pick-Up of Employees' Share of Retirement**

The Governing Board passed a resolution during fiscal year 2003 that took effect on July 1, 2003, for the pick-up of employee contributions to the State Teachers' Retirement System of Ohio (STRS Ohio) and the School Employees Retirement System (SERS). The Educational Service Center will pick-up 10 percent of the employees' share of retirement.

**14. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2003, the Educational Service Center entered into capitalized leases for the acquisition of reproduction equipment. In prior fiscal years, the Educational Service Center has also entered into capitalized leases for the acquisition of reproduction equipment. The terms of the agreements provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The new capital leases are reflected in the accounts, "Capital Outlay" and "Inception of Capital Lease" in the General Fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements in the General Fund. These expenditures are reported as function expenditures on the budgetary statements. Fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in the amount of \$60,070 for reproduction equipment, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in fiscal year 2003 totaled \$10,629.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003:

Fiscal Year Ending June 30,	GLTOAG
2004	\$15,493
2005	15,493
2006	15,493
2007	15,493
2008	4,581
Total Minimum Lease Payments	\$66,553
Less: Amount Representing Interest	(13,173)
Present Value of Minimum Lease Payments	\$53,380

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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**15. LONG-TERM OBLIGATIONS**

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

	<b>Amount Outstanding 6/30/2002</b>	<b>Additions</b>	<b>Deletions</b>	<b>Amount Outstanding 6/30/2003</b>
Intergovernmental Payable	\$8,037	\$8,163	\$8,037	\$8,163
Compensated Absences Payable	116,352	0	41,003	75,349
Capital Lease Obligation	39,480	60,070	46,170	53,380
Total General Long-Term Obligations	<u>\$163,869</u>	<u>\$68,233</u>	<u>\$95,210</u>	<u>\$136,892</u>

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

**16. INTERFUND ACTIVITY**

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

<b>Fund Type/Fund</b>	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General Fund	\$15,430	\$0
Special Revenue Funds:		
Power Choices	0	3,973
Parent Mentor	0	11,457
Total All Funds	<u>\$15,430</u>	<u>\$15,430</u>

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

**A. Jointly Governed Organizations**

**Miami Valley Educational Computer Association** - The Educational Service Center is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and the Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts.

The governing board of MVECA consists of four Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. The Educational Service Center paid MVECA \$7,534 for services provided during the fiscal year. Financial information can be obtained from Norma Stewart, who serves as Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2003, the Educational Service Center paid \$300 to SOEPC for membership fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Clark County Family and Children First Council** - The Clark County Family and Children First Council (the Council) is a voluntary association established to coordinate and integrate those services within Clark County which are available for families and children and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children. The Board of Trustees is comprised of eighteen representatives of each of the members of the Council, including the Superintendent of the Educational Service Center, who is appointed by the Superintendents of the Clark County schools. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Educational Service Center did not pay any dues during fiscal year 2003. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 1345 Lagonda Road, Springfield, Ohio 45502.

**Springfield/Clark County Joint Vocational School** - The Springfield/Clark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District and the Educational Service Center. One member is appointed from the Springfield City School District. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Pamela Ashbaugh, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4329.

**B. Insurance Purchasing Pools**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen 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 GRP to cover the costs of administering the program.

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**Southwestern Ohio Educational Purchasing Council Medical Benefits Plan** – The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating 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.

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

**18. STATE SCHOOL FUNDING DECISION**

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

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

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

**19. CONTINGENCIES**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.



**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)**

**20. SUBSEQUENT EVENT**

On July 24, 2003, the Governing Board approved the creation of a special cost center within the General Fund for the Educational Service Center. The beginning balance is \$250,000, and the account is to be presented as a designated fund balance for the Educational Service Center's future building requirements. The Educational Service Center currently leases part of a building owned by Greenon Local School District. The Educational Service Center may need separate space within the next few years. This amount represents approximately one-third of the General Fund's fund balance at June 30, 2003.

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## Auditor of State Betty Montgomery

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

Clark County Educational Service Center  
Clark County  
1211 Old Mill Road  
Springfield, Ohio 45506

To the Governing Board:

We have audited the financial statements of the Clark County Educational Service Center (the Service Center) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 24, 2003. 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 Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management of the Service Center in a separate letter dated December 24, 2003.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402  
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

**Internal Control Over Financial Reporting  
(Continued)**

However, we do not believe the reportable condition described above is a material weakness.

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

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

**Betty Montgomery**  
Auditor of State

December 24, 2003

**EDUCATIONAL SERVICE CENTER  
CLARK COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2003-001**

**Reportable Condition:**

**Accounting and Reporting of Fixed Assets**

Clark County Educational Service Center Governing Board Policy number 7455 requires the Service Center to maintain on all fixed assets an inventory listing by item to include but not limited to description, classification, identification or tag number, location and room number, purchase price, and date purchased.

The Service Center has not maintained an inventory listing for all fixed assets. The current inventory listing does not include assets acquired in fiscal year 2002 and 2003. Additionally, the listing has not been updated to reflect the disposal of all assets. This resulted in the following errors:

- the beginning balance for fixed assets was overstated by \$38,988;
- fiscal year 2003 additions were understated by \$58,458;
- fiscal year 2003 deletions were understated by \$57,536;
- these errors resulted in a total restatement to the general fixed assets account group in the amount of (\$38,066), or approximately 11% of the unadjusted balance.

To provide for better control over fixed assets, the Service Center should:

- maintain a detailed listing on all fixed assets per the Governing Board Policy;
- utilize addition and deletion forms to track fixed assets;
- and the additions and deletions should be updated periodically to the Service Center's fixed asset inventory listing.

Following these procedures will provide for more accurate reporting and better safeguards over the Service Centers' fixed assets.

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**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

**EDUCATIONAL SERVICE CENTER**

**CLARK 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  
APRIL 13, 2004**