



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EDUCATIONAL SERVICE CENTER
MERCER COUNTY

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Mercer County, (the Service Center), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Mercer County, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2002 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Jim Petro
Auditor of State

November 15, 2002

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$760,148	\$27,372	\$15,500			\$803,020
Receivables:						
Accounts	21,823	43				21,866
Intergovernmental	32,570	62,757				95,327
Accrued Interest	1,414					1,414
Prepaid Items	4,137					4,137
Fixed Assets				392,697		392,697
Other Debits:						
Amount to be Provided from General Governmental Resources					71,245	71,245
Total Assets and Other Debits	<u>820,092</u>	<u>90,172</u>	<u>15,500</u>	<u>392,697</u>	<u>71,245</u>	<u>1,389,706</u>
Liabilities, Fund Equity, and Other Credits:						
Liabilities:						
Accounts Payable	7,605	94				7,699
Accrued Wages and Benefits	465,295	5,413				470,708
Compensated Absences Payable	15,375				46,201	61,576
Intergovernmental Payable	121,172	626				121,798
Deferred Revenue	30,805	54,522				85,327
Undistributed Assets			15,500			15,500
Loans Payable					25,044	25,044
Total Liabilities	<u>640,252</u>	<u>60,655</u>	<u>15,500</u>		<u>71,245</u>	<u>787,652</u>
Fund Equity and Other Credits:						
Investment in General Fixed Assets				392,697		392,697
Fund Balance:						
Reserved for Encumbrances	12,893	6,212				19,105
Unreserved	166,947	23,305				190,252
Total Fund Equity and Other Credits	<u>179,840</u>	<u>29,517</u>		<u>392,697</u>		<u>602,054</u>
Total Liabilities, Fund Equity, and Other Credits	<u>\$820,092</u>	<u>\$90,172</u>	<u>\$15,500</u>	<u>\$392,697</u>	<u>\$71,245</u>	<u>\$1,389,706</u>

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Revenues:			
Intergovernmental	\$4,013,087	\$662,266	\$4,675,353
Interest	16,591		16,591
Tuition and Fees	134,530		134,530
Rent	36,305		36,305
Customer Services	733,094		733,094
Extracurricular Activities	35,392		35,392
Miscellaneous	54,275		54,275
Total Revenues	5,023,274	662,266	5,685,540
Expenditures:			
Current:			
Instruction:			
Regular	307,841	81,884	389,725
Special	2,186,002	55,667	2,241,669
Support Services:			
Pupils	1,508,185	75,709	1,583,894
Instructional Staff	446,464	30,671	477,135
Board of Education	69,461		69,461
Administration	250,305	930	251,235
Fiscal	70,815	4,145	74,960
Business	24,401		24,401
Operation and Maintenance of Plant	7,367	46,162	53,529
Pupil Transportation	25,855		25,855
Central	7,677		7,677
Extracurricular Activities	31,017		31,017
Capital Outlay	13,730	47,587	61,317
Intergovernmental		346,002	346,002
Debt Service:			
Principal Retirement	2,405	2,584	4,989
Interest and Fiscal Charges	1,276	1,196	2,472
Total Expenditures	4,952,801	692,537	5,645,338
Excess of Revenues Over (Under) Expenditures	70,473	(30,271)	40,202
Other Financing Sources:			
Proceeds of Loan	13,730		13,730
Sale of Fixed Assets	343		343
Total Other Financing Sources	14,073		14,073
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	84,546	(30,271)	54,275
Fund Balances at Beginning of Year	95,294	59,788	155,082
Fund Balances at End of Year	\$179,840	\$29,517	\$209,357

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$3,605,642	\$4,002,974	\$397,332	\$708,053	\$653,988	(\$54,065)
Interest	45,000	18,651	(26,349)			
Tuition and Fees	64,000	132,473	68,473			
Rent	37,000	36,305	(695)			
Customer Services	770,184	734,724	(35,460)			
Extracurricular Activities	47,474	36,960	(10,514)			
Gifts and Donations	6,000		(6,000)			
Miscellaneous	10,000	20,748	10,748			
Total Revenues	4,585,300	4,982,835	397,535	708,053	653,988	(54,065)
Expenditures:						
Current:						
Instruction:						
Regular	396,300	322,178	74,122	78,245	86,187	(7,942)
Special	2,273,335	2,260,511	12,824	334,386	301,042	33,344
Support Services:						
Pupils	1,632,360	1,608,953	23,407	111,753	82,820	28,933
Instructional Staff	485,490	473,384	12,106	131,550	130,810	740
Board of Education	73,550	69,750	3,800			
Administration	277,495	262,466	15,029	5,673	930	4,743
Fiscal	84,190	70,539	13,651	4,174	4,174	
Business	29,000	24,984	4,016			
Operation and Maintenance of Plant	9,500	8,216	1,284	62,840	46,162	16,678
Pupil Transportation	25,860	25,855	5			
Central	10,800	7,934	2,866			
Extracurricular Activities	41,700	33,444	8,256			
Capital Outlay	13,730	13,730		48,779	47,587	1,192
Debt Service:						
Principal Retirement	2,405	2,405		2,584	2,584	
Interest and Fiscal Charges	1,276	1,276		1,196	1,196	
Total Expenditures	5,356,991	5,185,625	171,366	781,180	703,492	77,688
Excess of Revenues Under Expenditures	(771,691)	(202,790)	568,901	(73,127)	(49,504)	23,623
Other Financing Sources (Uses):						
Proceeds of Loan	13,730	13,730				
Sale of Fixed Assets		343	343			
Refund of Prior Year Expenditures	5,000	5,058	58	8,100		(8,100)
Other Financing Sources	13,500	13,500				
Advances In		4,400	4,400			
Advances Out					(4,400)	(4,400)
Operating Transfers Out	(6,000)		6,000			
Total Other Financing Sources (Uses)	26,230	37,031	10,801	8,100	(4,400)	(12,500)
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(745,461)	(165,759)	579,702	(65,027)	(53,904)	11,123
Fund Balances at Beginning of Year	878,540	878,540		67,565	67,565	
Prior Year Encumbrances Appropriated	34,656	34,656		7,404	7,404	
Fund Balances at End of Year	\$167,735	\$747,437	\$579,702	\$9,942	\$21,065	\$11,123

See Accompanying Notes to the General Purpose Financial Statements.

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**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

1. REPORTING ENTITY

The Mercer County Educational Service Center (the "Educational Service Center") is located in Celina, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Ft. Recovery, Marion, Parkway, and St. Henry Local School Districts, the Coldwater Exempted Village School District, and the Celina City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Mercer County Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has fourteen administrators, fifty-four classified employees, and sixty-one certified teaching personnel that provide services to 10,344 students from the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 Mercer 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. There are no component units of the Mercer County Educational Service Center.

The Educational Service Center participates in five jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Mercer County Local Professional Development Committee, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the NOACSC Workers' Compensation Group Rating Plan, and the Mercer Auglaize Employee Benefit Trust. Information about these organizations is presented in Notes 14 and 15 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. Following are the more significant of the Educational Service Center's accounting policies.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

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

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

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

1. Governmental Fund Types:

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

2. Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Educational Service Center's fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. 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:

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General 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 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 fund types and agency 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 and the resources are available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized on a modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied and the revenue is 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.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, rent, and customer services.

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded 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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable.

The Educational Service Center adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. For budgeted funds, the budget includes the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year.

Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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 expenditures 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 Educational Service Center. The State Department 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 school district.

1. Appropriations:

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures for the General Fund, and fund and object level for all other funds. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, is limited by the estimated resources, and the total of expenditures and encumbrances is controlled so as not to exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations or object appropriations within functions in the General Fund are approved by the Educational Service Center's Board.

The Educational Service Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Encumbrances:

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

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 Investments

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 Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2002, investments were limited to certificates of deposit and STAR Ohio. Certificates of deposit are reported at cost. 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, 2002.

The Educational Service Center allocates interest according to Board of Education policy. Interest revenue credited to the General Fund during fiscal year 2002 was \$16,591, which included \$4,695 assigned from other Educational Service Center funds.

For purposes of 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. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(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 reductions during the year. Donated fixed assets are recorded at their fair market value 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 assets 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 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 employees after twenty years of service with the Educational Service Center, or after fifteen years of service and at least forty-five years of age, or after ten years of service and at least fifty years of age.

The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

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 that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources. The long-term loan is reported as a liability in the general long-term obligations account group until due.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Balance Reserves

The Educational Service Center records reservations for 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. A fund equity reserve has been established for encumbrances.

J. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local 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 fiscal year 2002, this included the Drug Free, Preschool, and Title VI-B special revenue funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. 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.

L. Estimates

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

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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

3. COMPLIANCE

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2002:

Fund Type/ Fund/Object	Appropriations	Expenditures	Excess
Special Revenue Fund			
Miscellaneous State Grants			
Salaries	\$19,426	\$34,630	\$15,204
Purchased Services	14,841	27,515	12,674

4. BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (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 basis are that:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	General	Special Revenue
GAAP Basis	\$84,546	(\$30,271)
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2001, Received in Cash FY 2002	(42,431)	0
Accrued FY 2002, Not Yet Received in Cash	20,550	(8,278)
Expenditure Accruals:		
Accrued FY 2001, Paid in Cash FY 2002	(782,586)	(10,781)
Accrued FY 2002, Not Yet Paid in Cash	563,895	6,133
Prepaid Items	(1,422)	0
Advances In	4,400	0
Advances Out	0	(4,400)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(12,711)	(6,307)
Budget Basis	(\$165,759)	(\$53,904)

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center 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 the Board of Education 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 or deposit accounts, including passbook accounts.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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 bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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.

At fiscal year end, the Educational Service Center had \$3,075 in undeposited cash on hand which is included on the balance sheet of the Educational Service Center as part of "Equity in Pooled Cash and Cash Equivalents".

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".

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$797,836 and the bank balance was \$1,059,267. Of the bank balance, \$450,000 was covered by federal depository insurance and \$609,267 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center's investments are 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 for which the securities are held by the Educational Service Center or the Educational Service Center's 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 investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$2,109.

The classification of cash and cash equivalents and investments on the combined balance sheet 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 classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$803,020	\$0
Cash on Hand	(3,075)	0
Investments:		
STAR Ohio	(2,109)	2,109
GASB Statement No. 3	\$797,836	\$2,109

6. 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 school district's resources provided under the State's School 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.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

6. STATE FUNDING (Continued)

If additional funding is needed by 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 School Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

7. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts, intergovernmental, and accrued interest. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30 were \$21,866.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Excess Costs	\$31,283
Web Based Program Tuition	1,225
Miscellaneous	62
Total General Fund	32,570
Special Revenue Funds	
MECA	
MECA Grant	23,903
Preschool	
Preschool Grant	38,854
Total Special Revenue Funds	62,757
Total Intergovernmental Receivables	\$95,327

8. FIXED ASSETS

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

Asset Category	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Furniture, Fixtures, and Equipment	\$252,293	\$56,303	\$30,310	\$278,286
Vehicles	18,420	95,991	0	114,411
Construction in Progress	38,117	0	38,117	0
Totals	\$308,830	\$152,294	\$68,427	\$392,697

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

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 2002, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by Westfield Insurance Company:	
Business Personal Property (\$250 deductible)	\$231,000
Premises and Operations (\$250 deductible)	300,000
Inland Marine Coverage (\$250 deductible)	98,723
Coverage by Harcum-Hyre Insurance Company:	
Automobile Combined Liability	1,000,000
Coverage provided by Ohio School Plan:	
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

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

For fiscal year 2002, the Educational Service Center participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2002, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. 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 Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

The Educational Service Center participates in the Mercer Auglaize Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Educational Service Center pays monthly premiums to the Trust for employee medical and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits 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, 275 East Broad Street, Columbus, Ohio 43215-3771.

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; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. 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 contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$251,286, \$233,453, and \$137,005, respectively; 84 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$40,219, is recorded as a liability within the respective funds.

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by 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.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. 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 contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$42,933, \$27,834, and \$30,412, respectively; 100 percent has been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2002, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

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 classified 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 obligation 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$119,030.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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.

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$67,151 for fiscal year 2002.

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 for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

12. OTHER EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty-five days.

B. Health Care Benefits

The Educational Service Center provides medical and dental insurance to all employees through the Mercer Auglaize Employee Benefit Trust. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. The Educational Service Center provides life insurance to employees through CoreSource.

13. LONG-TERM OBLIGATIONS

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

	Interest Rate	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Compensated Absences Payable		\$34,844	\$11,357	\$0	\$46,201
Loan Payable FY 01	9.74%	16,303	0	3,072	13,231
Loan Payable FY 02	7.24	0	13,730	1,917	11,813
Total General Long-Term Obligations		\$51,147	\$25,087	\$4,989	\$71,245

Loans Payable - On October 23, 2000, the Educational Service Center obtained a loan, in the amount of \$18,420, to purchase a vehicle. The loan has an interest rate of 9.74 percent. The loan was issued for three year period, with a final maturity during fiscal year 2004. The loan is being retired from the General Fund.

On August 29, 2001, the Educational Service Center obtained a loan, in the amount of \$13,730, to purchase a vehicle. The loan has an interest rate of 7.24 percent. The loan was issued for a four year period, with a final maturity during fiscal year 2006. The loan is being retired from the General Fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire the loan payable outstanding at June 30, 2002, were as follows:

Fiscal Year Ending June 30,	Loan Payable	Interest	Total
2003	\$4,526	\$1,676	\$6,202
2004	12,136	1,076	13,212
2005	2,164	536	2,700
2006	6,218	74	6,292
	\$25,044	\$3,362	\$28,406

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

14. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties and the Cities of St. Marys and Wapakoneta. 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 educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2002, the Educational Service Center paid \$4,797 to NOACSC for various services. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. Mercer County Local Professional Development Committee

The Educational Service Center is a participant in the Mercer County Local Professional Development Committee (Committee) which is a regional council of governments established to provide professional educator license renewal standards and procedures. The committee is governed by an eleven member board made up of six teachers, two building principals, one superintendent, and two members from the Mercer County Educational Service Center. Board members serve two year terms. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the educational entities in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which educational entities, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating educational entities, the business community, and two institutions of higher learning. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

15. INSURANCE POOLS

A. Ohio School Plan

The Educational Service Center participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

B. NOACSC 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 NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz, of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

C. Mercer Auglaize Employee Benefit Trust

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

15. INSURANCE POOLS

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Jim Mauntler; Schmidt, Long, and Associates, Inc., 4159 Holland-Sylvania Road, Suite 103, Toledo, Ohio 43623.

16. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a timeline for distribution was not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court

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

17. CONTINGENT LIABILITIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

B. Litigation

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

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

18. SUBSEQUENT EVENT

On July 1, 2002, The Educational Service Center entered into an agreement to purchase a building from Mercer County for \$100,000. The Educational Service Center will make four annual interest free payments of \$25,000.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Title VI-B, Special Education Grants to States	048546 6B-SF 2002	84.027	\$346,002	\$346,002
Special Education, Preschool Grants	048546PG-S1 2002	84.173	16,652	11,604
Special Education, Preschool Grants	048546PG-S1 2001	84.173	42,616	49,036
Special Education, Preschool Grants	048546 PG-S1 2000	84.173	<u>152</u>	<u>152</u>
Total			<u>59,268</u>	<u>60,792</u>
Total Special Education Cluster			405,270	406,794
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
(Passed through Ohio Department of Education)				
Learn and Serve Grant - School & Community Based Programs	048546 SV-S3 2001	94.004	<u>768</u>	<u>768</u>
Total Corporation for National and Community Service			<u>768</u>	<u>768</u>
Total Federal Assistance			<u>\$405,270</u>	<u>\$407,562</u>

See Accompanying Notes to the Schedule of Federal Awards Expenditures.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -- MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contribute non-Federal funds (matching funds) to support the Federally-funded programs. The expenditure of non-Federal matching funds is not included on the schedule.



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OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Mercer County (the Service Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10254-001. We also noted immaterial instances of noncompliance that we have reported to the management of the Service Center in a separate letter dated November 15, 2002.

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. 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 Service Center in a separate letter dated November 15, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 15, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

Compliance

We have audited the compliance of the Educational Service Center, Mercer County (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

As described in item 2002-10254-002 in the accompanying schedule of findings, the Service Center did not comply with requirements regarding reporting that are applicable to its Special Education Cluster: - Title VI-B, Special Education Grants to States and Special Education Preschool Grants. Compliance with such requirements is necessary, in our opinion, for Service Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. We also noted certain instances of noncompliance that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated November 15, 2002.

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Service's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2002-10254-002.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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. However, we believe the reportable condition described above is not a material weakness.

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



Jim Petro
Auditor of State

November 15, 2002

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2002

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster - Title VI-B, Special Education Grants to States: CFDA # 84.027 and Special Education Preschool Grants: CFDA # 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-10254- 001

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certificate should be considered null and void. If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that there were funds properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

18% of transactions tested, representing 19% of the expenditures made by the Service Center, had invoices dated prior to the issuance of the purchase order. Then and now certificates were not issued for these expenditures.

The Service Center should review Ohio Rev. Code Section 5705.41(D) and implement procedures for certification of funds.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-10254-002
CFDA Title and Number	Special Education Cluster – Special Education Preschool Grant CFDA # 84.173 and Title VI-B, Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	048546-PG-S1-2001P and 048546-6B-SF-02P
Federal Agency	US Department of Education
Pass-Through Agency	Ohio Department of Education (ODE)

Noncompliance/Reportable Condition - Reporting

34 CFR 80.20 (b) requires the financial management system of grantees and subgrantees to meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant awards and authorization, obligations, unobligated balances, outlays or expenditures, and income. **Ohio Department of Education Final Expenditure Report Instructions #7** requires the data reported on the Final Expenditure Report to reflect actual expenditures, not encumbrances.

Finding Number	2002-10254-002 (Continued)
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Special Education Preschool Grant (Fund 585-9001) - The Final Expenditure report was filed by the Service Center on 10/31/01 and reported both actual expenditures and unliquidated expenditures as of that date. Actual expenditures of \$2,109.16 were made after the 10/31/01 report date to liquidate encumbrances. In addition, accounting adjustments/account corrections were made to the accounting records through March 31, 2002 to zero out the grant and to agree to the expenditures reported on the Final Expenditure Report.

Title VI-B. Special Education Grants to States (Fund 516-9002) – The Final Expenditure Report was filed by the Service Center on 1/09/02. This report reflected expenditures of \$346,002.25 and a cash balance on hand of (\$311,402.02). As of this date, the accounting records for fund 516 actually reflected no expenditures and a cash balance on hand of \$34,600.23. The ESC provides services to several local districts for the grant program and accounts for the services performed in the general operating fund. The ESC then charges the Districts allowable costs under the grant program. This is recorded as an expenditure of the grant fund and a charge for service of the general fund. Although the expenditures had been made at the time the final expenditure report, the recording of the appropriate transactions to the accounting records of the Service Center to reflect the charge and expenditure to grant fund was not completed until 5/31/02.

The Service Center needs to accurately complete the final expenditure reports within the filing deadline and report only actual expenditures. The Service Center accounting records need to be complete and support the Final Expenditure Report at the time the report is filed. All accounting adjustments/account corrections and transactions should be posted to the accounting records of the grant fund within the grant period and the period allowed for liquidation of all obligations.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or No Longer <u>Valid</u> ; Explain
2001-10254-001	Ohio Rev. Code 5705.41 (D)	No	See 2002-10254-001
2001-10254-002	Ohio Rev. Code Section 3313.29	Partially	Entity personnel did not record the proper receipts and expenditures associated with the loan, however the compiler of the financial statements did make the adjustments with the approval of management. The comment will be reported in the management letter.

**EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
JUNE 30, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-10254-002	The Mercer County Educational Service Center will spend all federal grant funds completely before submitting the final expenditure report to the Ohio Department of Education. The Treasurer and/or Assistant Treasurer will complete the final expenditure report when all federal monies have been expended in the grant and the Superintendent and/or Grant Administrator will review the final expenditure report before submitting to the Ohio Department of Education.	This administrative procedure will be effective immediately.	Treasurer



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MERCER COUNTY EDUCATIONAL SERVICE CENTER

MERCER 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
DECEMBER 23, 2002**