



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

Table of Contents

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet – All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Comparison (Non-GAAP Basis) – All Governmental Fund Types	8
Notes to the General-Purpose Financial Statements	11
Schedule of Federal Awards Expenditures	29
Notes to the Schedule of Federal Awards Expenditures	30
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	31
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	33
Schedule of Findings	35

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Northwest Ohio Educational Service Center
Fulton County
602 South Shoop Avenue
P.O. Box 552
Wauseon, Ohio 43567-0552

To the Governing Board:

We have audited the accompanying general-purpose financial statements of Northwest Ohio Educational Service Center (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 Northwest Ohio Educational Service Center, Fulton 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.

As discussed in Note 3 to the general-purpose financial statements, the Service Center changed its policy regarding fixed asset capitalization.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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.

Our audit was performed for the purpose of forming 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 purposes of 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. Such information has been subjected 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 stylized, looping flourish at the end.

Jim Petro
Auditor of State

December 4, 2002

This page intentionally left blank.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types	
	General	Special Revenue
ASSETS AND OTHER DEBITS		
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$4,474,881	\$671,179
Receivables:		
Accounts	750	
Intergovernmental	278,155	43,143
Interfund	28,000	
Due from Other Funds	513	
Materials and Supplies Inventory	12,270	
Prepaid Items	90,899	2,181
Fixed Assets		
Other Debits:		
Amount to be Provided from General Governmental Resources		
	\$4,885,468	\$716,503
Total Assets and Other Debits	\$4,885,468	\$716,503
LIABILITIES, FUND EQUITY, AND OTHER CREDITS:		
Liabilities:		
Accounts Payable	\$1,568	\$647
Accrued Wages and Benefits	1,811,455	72,324
Compensated Absences Payable	43,769	5,067
Intergovernmental Payable	265,007	11,128
Interfund Payable		28,000
Due to Other Funds		513
Deferred Revenue	44,642	10,438
	2,166,441	128,117
Total Liabilities	2,166,441	128,117
Fund Equity and Other Credits:		
Investment in General Fixed Assets		
Fund Balance:		
Reserved for Encumbrances	92,361	58,163
Unreserved	2,626,666	530,223
	2,719,027	588,386
Total Fund Equity and Other Credits	2,719,027	588,386
Total Liabilities, Fund Equity and Other Credits	\$4,885,468	\$716,503

See Accompanying Notes to the General-Purpose Financial Statements

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$56,950			\$5,203,010
			750
			321,298
			28,000
			513
			12,270
			93,080
	\$1,589,166		1,589,166
		\$752,275	752,275
\$56,950	\$1,589,166	\$752,275	\$8,000,362
			\$2,215
			1,883,779
		\$701,783	750,619
\$56,950		50,492	383,577
			28,000
			513
			55,080
56,950		752,275	3,103,783
	\$1,589,166		1,589,166
			150,524
			3,156,889
	1,589,166		4,896,579
\$56,950	\$1,589,166	\$752,275	\$8,000,362

This page intentionally left blank.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Revenues:			
Intergovernmental	\$4,420,609	\$3,250,224	\$7,670,833
Interest	111,062		111,062
Tuition and Fees	10,014,224		10,014,224
Customer Services	611,887		611,887
Gifts and Donations	7,615	16,244	23,859
	<hr/>	<hr/>	<hr/>
Total Revenues	15,165,397	3,266,468	18,431,865
Expenditures:			
Current:			
Instruction:			
Regular	631,448	190,687	822,135
Special	4,777,735	151,393	4,929,128
Adult/Continuing	33	53,369	53,402
Support Services:			
Pupils	3,415,010	572,410	3,987,420
Instructional Staff	4,086,023	356,395	4,442,418
Board of Education	68,330		68,330
Administration	876,447	128,145	1,004,592
Fiscal	219,061	61,883	280,944
Business	19,127		19,127
Operation and Maintenance of Plant	165,534	28,183	193,717
Pupil Transportation	68,556	14,070	82,626
Central	17,973	50,445	68,418
Non-Instructional Services		13,555	13,555
Capital Outlay	1,140		1,140
Intergovernmental		1,412,046	1,412,046
	<hr/>	<hr/>	<hr/>
Total Expenditures	14,346,417	3,032,581	17,378,998
Excess of Revenues Over Expenditures	<hr/>	<hr/>	<hr/>
	818,980	233,887	1,052,867
Other Financing Sources (Uses):			
Sale of Fixed Assets	282		282
Operating Transfers In		20,050	20,050
Operating Transfers Out	(20,050)		(20,050)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(19,768)	20,050	282
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<hr/>	<hr/>	<hr/>
	799,212	253,937	1,053,149
Fund Balances at Beginning of Year	<hr/>	<hr/>	<hr/>
	1,919,815	334,449	2,254,264
Fund Balances at End of Year	<hr/> \$2,719,027 <hr/>	<hr/> \$588,386 <hr/>	<hr/> \$3,307,413 <hr/>

See Accompanying Notes to the General-Purpose Financial Statements

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$2,690,366	\$4,169,324	\$1,478,958
Interest	111,000	111,916	916
Tuition and Fees	8,975,440	9,954,606	979,166
Customer Services	500,062	670,195	170,133
Gifts and Donations	7,615	7,615	
Miscellaneous	250	421	171
Total Revenues	<u>12,284,733</u>	<u>14,914,077</u>	<u>2,629,344</u>
Expenditures:			
Current:			
Instruction:			
Regular	670,048	589,987	80,061
Special	4,811,858	4,722,986	88,872
Adult/Continuing	33	33	
Support Services:			
Pupils	4,145,379	3,192,834	952,545
Instructional Staff	4,120,104	4,033,596	86,508
Board of Education	82,795	71,768	11,027
Administration	939,658	875,874	63,784
Fiscal	227,573	222,354	5,219
Business	75,020	20,478	54,542
Operation and Maintenance of Plant	194,217	175,586	18,631
Pupil Transportation	90,500	68,550	21,950
Central	81,265	23,578	57,687
Non-Instructional Services			
Capital Outlay	80,000	29,360	50,640
Total Expenditures	<u>15,518,450</u>	<u>14,026,984</u>	<u>1,491,466</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,233,717)</u>	<u>887,093</u>	<u>4,120,810</u>
Other Financing Sources (Uses):			
Sale of Fixed Assets	250	282	32
Refund of Prior Year Expenditures		207,516	207,516
Refund of Prior Year Receipts	(156,330)	(155,330)	1,000
Advances In	44,000	44,000	
Advances Out	(77,500)	(28,000)	49,500
Operating Transfers In			
Operating Transfers Out	(20,050)	(20,050)	
Total Other Financing Sources (Uses)	<u>(209,630)</u>	<u>48,418</u>	<u>258,048</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(3,443,347)</u>	<u>935,511</u>	<u>4,378,858</u>
Fund Balances at Beginning of Year	3,333,890	3,333,890	
Prior Year Encumbrances Appropriated	109,457	109,457	
Fund Balances at End of Year	<u><u>\$4,378,858</u></u>	<u><u>\$4,378,858</u></u>	

See Accompanying Notes to the General-Purpose Financial Statements

Special Revenue Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$3,227,930	\$3,253,688	\$25,758	\$5,918,296	\$7,423,012	\$1,504,716
			111,000	111,916	916
			8,975,440	9,954,606	979,166
			500,062	670,195	170,133
16,244	16,244		23,859	23,859	
			250	421	171
<u>3,244,174</u>	<u>3,269,932</u>	<u>25,758</u>	<u>15,528,907</u>	<u>18,184,009</u>	<u>2,655,102</u>
245,157	223,651	21,506	915,205	813,638	101,567
926,420	787,443	138,977	5,738,278	5,510,429	227,849
70,818	52,012	18,806	70,851	52,045	18,806
1,386,769	1,194,833	191,936	5,532,148	4,387,667	1,144,481
622,699	518,257	104,442	4,742,803	4,551,853	190,950
			82,795	71,768	11,027
181,629	138,783	42,846	1,121,287	1,014,657	106,630
84,091	76,535	7,556	311,664	298,889	12,775
			75,020	20,478	54,542
41,644	33,333	8,311	235,861	208,919	26,942
34,948	29,143	5,805	125,448	97,693	27,755
50,701	50,119	582	131,966	73,697	58,269
58,507	41,705	16,802	58,507	41,705	16,802
			80,000	29,360	50,640
<u>3,703,383</u>	<u>3,145,814</u>	<u>557,569</u>	<u>19,221,833</u>	<u>17,172,798</u>	<u>2,049,035</u>
<u>(459,209)</u>	<u>124,118</u>	<u>583,327</u>	<u>(3,692,926)</u>	<u>1,011,211</u>	<u>4,704,137</u>
			250	282	32
				207,516	207,516
(13,079)	(13,079)		(169,409)	(168,409)	1,000
28,000	28,000		72,000	72,000	
(72,000)	(44,000)	28,000	(149,500)	(72,000)	77,500
20,050	20,050		20,050	20,050	
			(20,050)	(20,050)	
<u>(37,029)</u>	<u>(9,029)</u>	<u>28,000</u>	<u>(246,659)</u>	<u>39,389</u>	<u>286,048</u>
(496,238)	115,089	611,327	(3,939,585)	1,050,600	4,990,185
443,871	443,871		3,777,761	3,777,761	
52,367	52,367		161,824	161,824	
	\$611,327	\$611,327		\$4,990,185	\$4,990,185

This page intentionally left blank.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1 - REPORTING ENTITY

Northwest Ohio Educational Service Center (the Educational Service Center) is located in Wauseon, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to seventeen local, three exempted village, and three city school districts. 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 Northwest Ohio Educational Service Center operates under a locally-elected Governing Board elected from subdistricts within the four county area. The Board consists of nine members elected for staggered four year terms. The Educational Service Center has twenty-six administrators, two hundred three classified employees, and one hundred seventy-six certified employees who provide services to 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 Northwest Ohio Educational Service Center, this consists of 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. There are no component units of the Northwest Ohio Educational Service Center.

The Educational Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Ohio School Plan, the Northern Buckeye Education Council Employee Insurance Benefits Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 16 and 17 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting 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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(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.

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.

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 the measurement of results of operations.

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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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 the 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, student fees, and customer services.

Deferred revenues arise when assets are recognized before revenue recognition criteria have 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.

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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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 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.

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 the fund level of expenditures for all other funds. Budgetary allocations at the function and object level within all other funds are made by the Educational Service Center's Chief Fiscal Officer. 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 within the General Fund must be 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.

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.

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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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 repurchase agreements and STAR Ohio. Repurchase agreements 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 General Fund receives all interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 was \$111,062, which includes \$29,170 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. Inventory

Inventory is stated at the lower of cost or market on a first-in first-out basis and is expensed when used. Inventory consists of expendable supplies for consumption.

F. 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 the purchase and an expenditure is reported in the year in which the services are consumed.

G. 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 one thousand dollars.

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. The Educational Service Center does not have any infrastructure. Assets in the general fixed assets account group are not depreciated.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

H. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables". Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from/to Other Funds".

I. Compensated Absences

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

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 who have eight or more years of service with the Educational Service Center.

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.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities 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.

K. 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.

L. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. 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, these funds included Eisenhower, Title VI-B, and Preschool/Handicapped special revenue funds.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

M. 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.

N. 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.

O. 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.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2002, the Educational Service Center has increased the threshold amount for capitalizing fixed assets. The threshold amount was increased from \$250 to \$1,000.

The fixed assets reported in the general fixed assets account group decreased \$312,584, from \$1,849,986 to \$1,537,402, due to the change in the threshold amount for capitalizing fixed assets.

NOTE 4 - ACCOUNTABILITY

At June 30, 2002, the Miscellaneous Federal Grants special revenue fund had a deficit fund balance of \$5,800. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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 (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 Expenditures and Other Financing Uses All Governmental Fund Types		
	General	Special Revenue
GAAP Basis	\$799,212	\$253,937
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals:		
Accrued FY 2001, Received in Cash FY 2002	190,972	36,169
Accrued FY 2002, Not Yet Received in Cash	(234,776)	(32,705)
Expenditure Accruals:		
Accrued FY 2001, Paid in Cash FY 2002	(1,845,357)	(156,184)
Accrued FY 2002, Not Yet Paid in Cash	2,121,799	89,679
Materials and Supplies Inventory	566	
Prepaid Items	(16,882)	45
Advances In	44,000	28,000
Advances Out	(28,000)	(44,000)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(96,023)	(59,852)
Budget Basis	\$935,511	\$115,089

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits the Governing Board 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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(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 Chief Fiscal Officer 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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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 Chief Fiscal Officer 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 \$140 in undeposited cash on hand which is included on the balance sheet of the School District as part of "Equity in Pooled Cash and Cash Equivalents".

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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".

At fiscal year end, the carrying amount of the Educational Service Center's deposits was (\$252,743) and the bank balance was \$37,842, all of which was covered by federal depository insurance.

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 an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase Agreement	\$211	\$211	\$211
STAR Ohio		5,455,402	5,455,402
Totals		<u>\$5,455,613</u>	<u>\$5,455,613</u>

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:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$5,203,010	
Cash on Hand	(140)	
Investments:		
Repurchase Agreement	(211)	\$211
STAR Ohio	<u>(5,455,402)</u>	<u>5,455,402</u>
GASB Statement No. 3	<u>(\$252,743)</u>	<u>\$5,455,613</u>

NOTE 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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

\$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 \$40.52. This amount is provided from State resources.

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.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002, consisted of accounts, intergovernmental, interfund, and services charged to other funds. 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 \$750. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Program Cost	\$95,666
Community Alternative Funding	141,250
Customer Services	40,831
Reimbursement	408
Total General Fund	278,155
Special Revenue Fund	
Miscellaneous Federal Grants	43,143
Total Intergovernmental Receivables	\$321,298

NOTE 9 - 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 6/30/01
Building	\$164,773	\$8,596		\$173,369
Furniture, Fixtures, and Equipment	983,089	130,185	\$104,557	1,008,717
Vehicles	389,540	17,540		407,080
Total	\$1,537,402	\$156,321	\$104,557	\$1,589,166

NOTE 10 - INTERFUND ASSETS/LIABILITIES

At June 30, 2002, the General Fund had an interfund receivable and the Miscellaneous Federal Grants special revenue fund had an interfund payable, in the amount of \$28,000. The General fund had a due

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

from other fund and the Alternative School special revenue fund had a due to other fund, in the amount of \$513, for services provided.

NOTE 11 - 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 Ohio School Plan	
General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Coverage provided by Indiana Insurance	
Commercial Property (\$1,000 deductible)	4,052,300
Umbrella Liability	
Per Occurrence	1,000,000
Aggregate	1,000,000
Coverage provided by Nationwide Insurance Company	
Auto Coverage	
Liability	2,000,000
Uninsured Motorist	2,000,000

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 2001, 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.

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (Program), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Educational Service Center pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant 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 participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides 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 \$738,664, \$683,631, and \$413,986, respectively; 85 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 \$112,186, 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 \$175,428, \$117,236, and \$142,290, respectively; 82 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 \$31,027, is recorded as a liability within the respective funds and the general long-term obligations account group.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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, three members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - 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 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 \$349,893.

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 \$324,869 for fiscal year 2002.

The surcharge, added to the unallocated portion of 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.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, superintendents, 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-five days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-six and one-fourth days for all employees.

B. Health Care Benefits

The Educational Service Center participates in the Northern Buckeye Education Council Employee Insurance Benefits Program. Through this program, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the coverage selected, the employees share the cost of the monthly premium with the Board.

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Compensated Absences Payable	\$613,537	\$88,246		\$701,783
Intergovernmental Payable	53,981	50,492	\$53,981	50,492
Total	\$667,518	\$138,738	\$53,981	\$752,275

Compensated absences and intergovernmental payables, representing the Educational Service Center's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

by any participating educational entity is limited to its representation on the Board. During fiscal year 2002, the Educational Service Center paid \$53,310 to NWOCA for various services. Financial information can be obtained from Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The degree of control exercised by the Educational Service Center is limited to its representation on the Board. The Career Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, Route 1, Box 245A, Archbold, Ohio 43502.

D. 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.

NOTE 17 - 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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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. Northern Buckeye Education Council Employee Insurance Benefits Program

The Northern Buckeye Education Council Employee Insurance Benefits Program (Program) is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Program is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

C. Northern Buckeye Education Council 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 Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 18 - 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 will have on its future State funding and on its financial operations.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 19 - CONTINGENCIES

A. Grants

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

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Schedule of Federal Award Receipts and Expenditures
For the Year Ended June 30, 2002**

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Receipts	Disburse- ments
UNITED STATES DEPARTMENT OF EDUCATION Passed through the State Department of Education					
Title I Migrant Education Program	84.011	124297-MG-S1-02	\$314,775	\$314,775	\$51,570
		124297-MG-S1-01	218,527		125,092
		124297-MG-S1-01C			12,548
Total - Migrant Education Program				314,775	189,210
Title I OMEC Program		124297-MG-ST-02	600,000	600,000	409,012
		124297-MG-ST-01	569,164		181,442
Total - OMEC Program				600,000	590,454
Total Migrant Education and OMEC				914,775	779,664
Title I ESEA Program	84.010	124297-AF-01-P	50,000		43,549
<u>Special Education Cluster:</u>					
Title VI-B Education of Handicapped	84.027	124297-6B-SF-02P	1,264,149	1,264,149	1,264,149
Preschool Grant	84.173	124297-PG-S1-2002P	134,993	134,993	134,993
Total Special Education Cluster				1,399,142	1,399,142
Dwight D. Eisenhower Math and Science Grant	84.281	124297-MS-S1-00	68,167		12,904
Goals 2000 Partnership Grant	84.276	124297-G2-S3-01	84,000		9,379
Total United States Department of Education				2,313,917	2,244,638
NATIONAL SCIENCE FOUNDATION					
National Science Foundation	47.076		10,000		2,722
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through the Ohio Department of MRDD					
Community Alternative Funding System	93.778	FY 02		226,639	
		FY 01		150,786	
		FY 99		107,424	275,741
		FY 98			4,023
Total United States Department of Health and Human Services				484,849	279,764
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$2,798,766	2,527,124

The accompanying notes are an integral part of the this schedule.

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
June 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the Service Center's federal awards programs. The schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

Northwest Ohio Educational Service Center
Fulton County
602 South Shoop Street
P.O. Box 552
Wauseon, Ohio 43567-0552

To the Governing Board:

We have audited the financial statements of Northwest Ohio Educational Service Center (the Service Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 4, 2002, which report noted the change in its policy regarding fixed asset capitalization. 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.

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.

This report is intended for the information and use of the audit committee, management, the governing body, 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 fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

December 4, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**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**

Northwest Ohio Educational Service Center
Fulton County
602 South Shoop Street
P.O. Box 552
Wauseon, Ohio 43567-0552

To the Governing Board:

Compliance

We have audited the compliance of Northwest Ohio Educational Service Center (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 each of its major federal programs for the year ended June 30, 2002. The Service Center's major federal programs are 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 each of its major federal programs 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.

In our opinion, the Service Center complied, in all material aspects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2002. However, we noted an immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated December 4, 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*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the governing body, 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", written in a cursive style.

Jim Petro
Auditor of State

December 4, 2002

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER
FULTON COUNTY**

**Schedule of Findings
OMB Circular A -133 §.505
June 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(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 noncompliance at the financial statement level (GAGAS)?	No
(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?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Migrant Educational Program CFDA #84.011 Community Alternative Funding System CFDA # 93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: \$ 100,000
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTHWEST OHIO EDUCATIONAL SERVICE CENTER

FULTON 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
JANUARY 9, 2003**