



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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AUGLAIZE COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite #2
Wapakoneta, Ohio 45895

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Auglaize County, (the Center), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Auglaize County, as of the years ended June 30, 2007 and June 30, 2006, and the respective changes in cash financial position thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Mary Taylor, CPA
Auditor of State

December 17, 2007

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Auglaize County Educational Service Center's (the Center) financial performance provides an overview of the Center's financial activities for the fiscal year ended June 30, 2007, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the Center's financial performance as a whole.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Center's cash basis of accounting.

The Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the Center's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole Center.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds, with all other nonmajor funds presented in total in a single column. For the Center, the General Fund is the most significant fund.

REPORTING THE EDUCATIONAL SERVICE CENTER AS A WHOLE

The statement of net assets and the statement of activities reflect how the Center did financially during fiscal year 2007, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the Center at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the Center's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Center's general receipts.

These statements report the Center's cash position and the changes in cash position. Factors which contribute to these changes may also include the Center's facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the Center's activities are presented as governmental activities including instruction, support services, and non-instructional services disbursements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

REPORTING THE EDUCATIONAL SERVICE CENTER'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the Center's major funds. While the Center uses many funds to account for its financial transactions, the fund financial statements focus on the Center's most significant funds. The Center's only major governmental fund is the General Fund.

Governmental Funds - All of the Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Center's programs.

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Table 1 provides a summary of the Center's net assets for fiscal year 2007 and fiscal year 2006:

Table 1 Net Assets		
	2007	2006
Assets:		
Cash and Cash Equivalents	\$2,530,106	\$1,628,974
Net Assets:		
Restricted	108,742	65,946
Unrestricted	2,421,364	1,563,028
Total Net Assets	\$2,530,106	\$1,628,974

Total net assets increased \$901,132, or 55 percent. The Center received the direct cost reimbursement from the two community schools sponsored by the Center for services provided in fiscal year 2005 and fiscal year 2006. Also, the State Foundation revenue for contract services for one of the city school districts was increased by \$250,000 in fiscal year 2007. Due to the increase plus excess monies already being held from the prior fiscal year, the city school district has overpaid the Center by \$471,000 that will need to be reimbursed to the city school district. Restricted net assets increased by 65 percent. Cash for the 21st Century grant had not been spent by fiscal year end.

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

Table 2 Change in Net Assets		
	2007	2006
Receipts:		
Program Receipts		
Charges for Services	\$5,305,725	\$4,949,813
Operating Grants and Contributions	484,605	664,192
Capital Grants and Contributions		10,231
Total Program Receipts	5,790,330	5,624,236

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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

General Receipts	2007	2006
Grants and Entitlements	\$1,014,279	\$1,063,915
Interest	91,027	33,787
Miscellaneous	76,463	70,560
Total General Receipts	<u>1,181,769</u>	<u>1,168,262</u>
Total Receipts	<u>6,972,099</u>	<u>6,792,498</u>
Disbursements:		
Instruction:		
Regular	1,283,122	1,211,619
Special	2,475,578	2,389,070
Support Services:		
Pupils	1,420,228	1,455,630
Instructional Staff	203,031	189,697
Board of Education	13,025	16,320
Administration	403,027	434,807
Fiscal	135,327	159,365
Operation and Maintenance of Plant	56,806	47,305
Pupil Transportation	58,501	45,427
Central	11,725	7,635
Noninstructional Services	997	22,541
Debt Service:		
Principal Retirement	9,600	9,600
Total Disbursements	<u>6,070,967</u>	<u>5,989,016</u>
Increase in Net Assets	901,132	803,482
Net Assets at Beginning of Year	<u>1,628,974</u>	<u>825,492</u>
Net Assets at End of Year	<u><u>\$2,530,106</u></u>	<u><u>\$1,628,974</u></u>

Program receipts during fiscal year 2007 represented 83 percent of total receipts which is comparable to fiscal year 2006. The program receipts are primarily represented by charges for educational programs provided to the school districts served by the Center. Charges for services increased slightly over fiscal year 2006. The services being charged to the school districts involve various instruction and support services. The Center provides services to two city school districts, four local school districts, and two community schools. The Center also provides fiscal services to the West Central Ohio Special Education Regional Resource Center (SERRC).

Disbursements in fiscal year 2007 related to the services charged to school districts are a large portion of the Center's budget with 41 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, and preschool disabled children.

Regular instruction disbursements did not increase significantly. Regular instruction costs (21 percent) include opportunity program, alternative program, suspension program, typical preschool program, and intervention tutors. Pupil support services were 23 percent of total disbursements. These disbursements include the costs of supervisors, child information management specialists, paraprofessionals (teacher aides), and a technology director.

Overall, disbursements in fiscal year 2007 did not increase significantly from fiscal year 2006.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction:				
Regular	\$1,283,122	\$1,211,619	\$921,222	\$499,128
Special	2,475,578	2,389,070	(2,063,771)	(508,406)
Support Services:				
Pupils	1,420,228	1,455,630	601,486	(450,230)
Instructional Staff	203,031	189,697	203,031	102,796
Board of Education	13,025	16,320	13,025	16,320
Administration	403,027	434,807	394,027	434,807
Fiscal	135,327	159,365	97,074	157,783
Operation and Maintenance of Plant	56,806	47,305	56,126	47,305
Pupil Transportation	58,501	45,427	49,345	35,196
Central	11,725	7,635	(1,525)	(2,060)
Noninstructional Services	997	22,541	997	22,541
Debt Service:				
Principal Retirement	9,600	9,600	9,600	9,600
Total Disbursements	<u>\$6,070,967</u>	<u>\$5,989,016</u>	<u>\$280,637</u>	<u>\$364,780</u>

Program receipts provided for 95 percent of the Center's costs for services which is comparable to fiscal year 2006. Most of the program receipts are associated with regular instruction, special instruction, and pupil support services in fiscal year 2007.

Instructional programs are charged to school districts and recorded by the Center as charges for services receipts for activities related to special instruction. Therefore, the special instruction program appears to be over funded while the instructional staff support services program seems to be somewhat under funded.

THE EDUCATIONAL SERVICE CENTER'S FUNDS

The Center's governmental funds are accounted for using the cash basis of accounting. The fund balance in the General Fund increased by \$858,336, or 55 percent. The increase was from the costs reimbursed by the two community schools sponsored by the Center and contract revenues for fiscal services for the West Central Ohio Special Education Regional Resource Center.

GENERAL FUND BUDGETING HIGHLIGHTS

The Center's budget is prepared according to the requirements specified by the Board of Education and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

During fiscal year 2007, the Center amended its General Fund budget as needed. The Center appropriates on the function level for the General Fund. Changes from both the original budget to the final budget and from the final budget to actual receipts were not significant. The same can be said for disbursements.

CURRENT ISSUES

The Center became the fiscal agent of the West Central Ohio Special Education Regional Resource Center (SERRC) in fiscal year 2007. In fiscal year 2008, the Center is adding a second elementary autism unit and a high school/transition autism unit. The Center will also become the fiscal agent for the Educational Regional Service System, Region 6 that serves seven counties for IDEA-B, regional technical assistance, and reading improvement and literacy activities.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Center's finances for all those interested in our Center's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Margaret J. Grimm, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2007

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,530,106</u>
Net Assets	
Restricted for:	
Other Purposes	108,742
Unrestricted	<u>2,421,364</u>
Total Net Assets	<u><u>\$2,530,106</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Cash Receipts			Net (Disbursement) Receipt and Change in Net Assets
Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$1,283,122		\$361,900	(\$921,222)
Special	2,475,578	\$ 4,422,924	116,425	2,063,771
Support Services:				
Pupils	1,420,228	818,742		(601,486)
Instructional Staff	203,031			(203,031)
Board of Education	13,025			(13,025)
Administration	403,027	6,000	3,000	(394,027)
Fiscal	135,327	38,253		(97,074)
Operation and Maintenance of Plant	56,806	680		(56,126)
Pupil Transportation	58,501	8,876	280	(49,345)
Central	11,725	10,250	3,000	1,525
Non-instructional Services	997			(997)
Debt Service				
Principal Retirement	9,600			(9,600)
Total Governmental Activities	\$6,070,967	\$5,305,725	\$484,605	(280,637)
General Receipts				
Grants and Entitlements Not Restricted to Specific Programs				1,014,279
Interest				91,027
Miscellaneous				76,463
				1,181,769
Total General Receipts				1,181,769
Change in Net Assets				901,132
Net Assets at Beginning of Year				1,628,974
Net Assets at End of Year				\$2,530,106

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Other Governmental	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,421,364	\$108,742	\$2,530,106
Fund Balances			
Reserved for Encumbrances	17,372	49,043	66,415
Unreserved, Reported in			
General Fund	2,403,992		2,403,992
Special Revenue Funds		59,699	59,699
Total Fund Balances	\$2,421,364	\$108,742	\$2,530,106

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts			
Intergovernmental	\$1,014,559	\$483,909	\$1,498,468
Interest	91,027		91,027
Tuition and Fees	269,949		269,949
Charges for Services	5,026,247		5,026,247
Extracurricular Activities		9,529	9,529
Gifts and Donations		416	416
Miscellaneous	76,463		76,463
Total Receipts	<u>6,478,245</u>	<u>493,854</u>	<u>6,972,099</u>
Disbursements			
Current:			
Instruction:			
Regular	1,074,307	208,815	1,283,122
Special	2,350,712	124,866	2,475,578
Support Services:			
Pupils	1,387,352	32,876	1,420,228
Instructional Staff	177,132	25,899	203,031
Board of Education	13,025		13,025
Administration	358,965	44,062	403,027
Fiscal	135,327		135,327
Operation and Maintenance of Plant	55,806	1,000	56,806
Pupil Transportation	48,958	9,543	58,501
Central	8,725	3,000	11,725
Non-instructional Services		997	997
Debt Service:			
Principal Retirement	9,600		9,600
Total Disbursements	<u>5,619,909</u>	<u>451,058</u>	<u>6,070,967</u>
Excess of Receipts Over (Under) Disbursements	858,336	42,796	901,132
Fund Balances at Beginning of Year	<u>1,563,028</u>	<u>65,946</u>	<u>1,628,974</u>
Fund Balances at End of Year	<u><u>\$2,421,364</u></u>	<u><u>\$108,742</u></u>	<u><u>\$2,530,106</u></u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$95,524</u>
Net Assets	
Held for Students	25,067
Unrestricted	<u>70,457</u>
Total Net Assets	<u><u>\$95,524</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Auglaize County Educational Service Center (the "Center") is located in Wapakoneta, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts, the St. Marys and Wapakoneta City School Districts, and the Auglaize County Educational Academy and Auglaize County Special Needs School (community schools). The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Center has seventeen administrators, eighty-four classified employees, and forty-four certified employees who provide services to the local and city school districts and the community schools.

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 Center consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student-related activities.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. There are no component units of the Center.

The Center is associated with five jointly governed organizations and three insurance pools. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Schools of Ohio Risk Sharing Authority, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

As of fiscal year 2007, the Center serves as fiscal agent for the West Central Special Education Regional Resource Center (SERRC). Accordingly, this activity is presented as agency funds within the Center's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following are the more significant of the Center's accounting policies.

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the cash balance of the governmental activities of the Center at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Center's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Center's funds are classified into two categories: governmental and fiduciary.

1. Governmental Funds

The Center classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The Center's only major fund is the General Fund.

General Fund - The General Fund 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 Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

The fiduciary funds held by the Center are the agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency funds account for the activity of the SERRC.

C. Basis of Accounting

The Center's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Center's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded on the financial statements.

D. Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". During fiscal year 2007, the Center had investments in negotiable certificates of deposit.

The Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2007 was \$91,027 which included \$5,480 assigned from other Center funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Center.

G. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets restricted for other purposes include federal and state grants restricted to expenditure for specified purposes. At June 30, 2007, there were no net assets restricted by enabling legislation. The Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Fund Balance Reserves

The Center reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

J. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported in a special revenue fund. For fiscal year 2007, this consisted of the Preschool Handicapped and Title III Learning English Proficiency special revenue funds.

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

4. DEPOSITS AND INVESTMENTS

Monies held by the Center are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Center treasury. Active monies must be maintained either as cash in the 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
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Interim monies held by the Center 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. 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; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

At year-end, the Center had \$200 in undeposited cash.

A. Deposits

At June 30, 2007, the carrying amount of deposits was \$2,625,430 and the bank balance was \$2,766,199 which was fully collateralized with FDIC and securities held in the Center's name.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. STATE FUNDING

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

The Center also receives funding from the State Department of Education, in the amount of \$37.00 multiplied by the average daily membership of the Center. Average daily membership includes the total student counts of all of the local school districts served by the Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Center.

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

6. RISK MANAGEMENT

The 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.

For fiscal year 2007, the Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant. Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

Property	\$2,853,947
General Liability	
Per Occurrence	3,000,000
Aggregate	5,000,000
Automobile Liability	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.

The Center participates in the Mercer Auglaize School Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven school districts and two Centers. The Center pays monthly premiums to the Trust for employee medical, dental, and vision 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
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. RISK MANAGEMENT (Continued)

The Center participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The 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 to members and death and survivor benefits to 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.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006, and 2005 was \$370,285, \$305,448, and \$308,600, respectively; 86 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions for the DCP and CP for the fiscal year ended June 30, 2007, were \$6,171 made by the Center and \$12,187 made by plan members.

B. School Employees Retirement System

The 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$141,639, \$128,836, and \$93,125, respectively; 85 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

C. Social Security System

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, 2007, 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
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POST-EMPLOYMENT BENEFITS

The 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of 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 2006 (latest available information), the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount was \$28,958.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006 (the latest available information). For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 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. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 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 2007, the minimum pay was established at \$35,800. For the Center, the amount to fund health care benefits, including the surcharge, was \$64,188 for fiscal year 2007.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest available information), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from State laws. Eleven and twelve-month employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to eleven and twelve-month employees upon termination of employment. Teachers do not earn vacation time.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. OTHER EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-five days for classified employees with ten or more years of service. Certified employees with five or more years of service are entitled to one-fourth of accrued but unused sick leave credit to a maximum of forty-five days upon retirement.

B. Health Care Benefits

The Center offers medical, dental, vision and prescription insurance to most employees through the Mercer Auglaize School Employee Benefit Trust. In addition, the Center offers life insurance through CoreSource Insurance Agency.

10. LONG-TERM OBLIGATIONS

Changes in the Center's long-term obligations during fiscal year 2007 were as follows:

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Loans Payable	\$33,600	\$0	\$9,600	\$24,000

In fiscal year 2000, the Center entered into a loan agreement with the Auglaize County Commissioners for the construction of a new building. The agreement requires a repayment of \$9,600 per year for ten years. The loan will be fully repaid on November 1, 2009. The loan is interest free and is being repaid from the General Fund.

11. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the educational entities located 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 the Hancock County Center, 7746 County Road 140, Findlay, Ohio 45840.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. West Central Ohio Special Education Regional Resource Center (SERRC)

The 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 the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

C. Western Ohio Computer Organization (WOCO)

The Center is a participant in WOCO. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby 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 governing board of WOCO consists of two representatives from each county elected by majority vote of all charter educational entities within each county plus a representative from the fiscal agent educational entity. During fiscal year 2007, the Center paid \$3,877 to WOCO for various services.

Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

D. Auglaize County Educational Academy

The Center is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts.

Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

E. Auglaize County Special Needs School

The Center is a participant in the Auglaize County Special Needs School (ACSNS), which is a community school. The ACSNS is an association of the school districts within Auglaize County to provide a special education program for kindergarten through twelfth grade students with multiple handicapped, emotionally disturbed, or autistic needs. The governing board of the ACSNS consists of the superintendents from each of the participating school districts.

Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority (SORSA)

The Center participates in SORSA, an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated 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. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Mercer Auglaize School Employee Benefit Trust

The Center participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision 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.

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 James Mauntler, JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio, 43614.

C. Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by the five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

13. CONTINGENCIES

A. Grants

The 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 Center at June 30, 2007.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$2,625,000	\$2,502,000	\$1,014,559	(\$1,487,441)
Interest	75,000	75,000	91,027	16,027
Tuition and Fees	111,400	186,400	269,949	83,549
Charges for Services	3,300,000	3,514,300	5,026,247	1,511,947
Miscellaneous	118,500	107,000	76,463	(30,537)
Total Receipts	<u>6,229,900</u>	<u>6,384,700</u>	<u>6,478,245</u>	<u>93,545</u>
Disbursements				
Current:				
Instruction:				
Regular	970,202	1,066,545	1,077,530	(10,985)
Special	2,308,181	2,350,981	2,353,368	(2,387)
Support Services:				
Pupils	1,459,178	1,399,178	1,391,776	7,402
Instructional Staff	177,967	172,967	177,202	(4,235)
Board of Education	15,066	17,466	13,025	4,441
Administration	388,682	368,682	362,058	6,624
Fiscal	186,366	141,366	139,233	2,133
Operation and Maintenance of Plant	95,229	66,886	55,806	11,080
Pupil Transportation	41,500	51,500	48,958	2,542
Central	6,180	9,180	8,725	455
Debt Service:				
Principal Retirement		9,600	9,600	
Total Disbursements	<u>5,648,551</u>	<u>5,654,351</u>	<u>5,637,281</u>	<u>17,070</u>
Excess of Receipts Over Changes in Fund Balance	581,349	730,349	840,964	110,615
Fund Balance at Beginning of Year	1,539,662	1,539,662	1,539,662	
Prior Year Encumbrances Appropriated	23,366	23,366	23,366	
Fund Balance at End of Year	<u><u>\$2,144,377</u></u>	<u><u>\$2,293,377</u></u>	<u><u>\$2,403,992</u></u>	<u><u>\$110,615</u></u>

See accompanying notes to the schedule.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Budgetary Process

The Center is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and appropriations for all funds. The Center amends the budget through out the fiscal year as necessary. During the June meeting (near the end of June), the Board approves the final budget to closely coincide with actual expenditures.

Budgetary Basis of Accounting

The Statement of Receipts, Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the cash basis is that encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis).

The adjustments necessary to reconcile the cash and budgetary basis statements for the General Fund are as follows:

Fund Balance	
Cash Basis	\$2,421,364
Encumbrances Outstanding	<u>(17,372)</u>
Budget Basis	<u><u>\$2,403,992</u></u>

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The discussion and analysis of Auglaize County Educational Service Center's (the Center) financial performance provides an overview of the Center's financial activities for the fiscal year ended June 30, 2006, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the Center's financial performance as a whole.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Center's cash basis of accounting.

The Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the Center's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole Center.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds, with all other nonmajor funds presented in total in a single column. For the Center, the General Fund is the most significant fund.

REPORTING THE EDUCATIONAL SERVICE CENTER AS A WHOLE

The statement of net assets and the statement of activities reflect how the Center did financially during fiscal year 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the Center at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the Center's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Center's general receipts.

These statements report the Center's cash position and the changes in cash position. Factors which contribute to these changes may also include the Center's facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the Center's activities are presented as governmental activities including instruction, support services, and non-instructional services disbursements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

REPORTING THE EDUCATIONAL SERVICE CENTER'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the Center's major funds. While the Center uses many funds to account for its financial transactions, the fund financial statements focus on the Center's most significant funds. The Center's only major governmental fund is the General Fund.

Governmental Funds - All of the Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide a detailed short-term view of the Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Center's programs.

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Table 1 provides a summary of the Center's net assets for fiscal year 2006 and fiscal year 2005:

Table 1 Net Assets		
	2006	2005
Assets:		
Cash and Cash Equivalents	\$1,628,974	\$825,492
Net Assets:		
Restricted	65,946	
Unrestricted	1,563,028	825,492
Total Net Assets	\$1,628,974	\$825,492

Total net assets increased \$803,482, or 97 percent. The primary reason for the increase was due to payments from the two community schools for services rendered for the majority of fiscal year 2005 and through March 31, 2006, within fiscal year 2006.

Table 2 reflects the changes in net assets for fiscal year 2006 and fiscal year 2005.

Table 2 Change in Net Assets		
	2006	2005
Receipts:		
Program Receipts		
Charges for Services	\$4,949,813	\$3,848,641
Operating Grants and Contributions	664,192	1,273,192
Capital Grants and Contributions	10,231	
Total Program Receipts	5,624,236	5,121,833

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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

General Receipts	2006	2005
Grants and Entitlements`	1,063,915	381,326
Interest	33,787	20,565
Miscellaneous	70,560	52,733
Total General Receipts	<u>1,168,262</u>	<u>454,624</u>
Total Receipts	<u>6,792,498</u>	<u>5,576,457</u>
Disbursements:		
Instruction:		
Regular	1,211,619	900,717
Special	2,389,070	2,364,797
Support Services:		
Pupils	1,455,630	1,459,007
Instructional Staff	189,697	179,158
Board of Education	16,320	7,204
Administration	434,807	311,299
Fiscal	159,365	116,382
Operation and Maintenance of Plant	47,305	51,085
Pupil Transportation	45,427	39,039
Central	7,635	6,554
Non-instructional Services	22,541	5,423
Debt Service:		
Principal Retirement	9,600	9,600
Total Disbursements	<u>5,989,016</u>	<u>5,450,265</u>
Increase in Net Assets	803,482	126,192
Net Assets at Beginning of Year	825,492	699,300
Net Assets at End of Year	<u><u>\$1,628,974</u></u>	<u><u>\$825,492</u></u>

Program receipts represented 83 percent of total receipts and are primarily represented by charges for educational programs provided to the school districts served by the Center. Charges for services were significantly higher in fiscal year 2006 from receiving reimbursement for services provided to the two community schools for a portion of fiscal year 2005 and all services rendered through March 31, 2006. The services being charged to the school districts involve various instruction and support services. The Center provides services to two city school districts, four local school districts, and two community schools.

Disbursements related to the services charged to school districts are a large portion of the Center's budget with 40 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, and preschool disabled children.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Regular instruction disbursements increased from additional costs associated with the operation of the Auglaize County Educational Academy. These disbursements also increased from the hiring of additional aides supplied to the city school districts through the city/county support agreements. Regular instruction costs (20 percent) include opportunity program, alternative program, suspension program, typical preschool program, and intervention tutors.

Pupil support services were 24 percent of total disbursements. These disbursements include the costs of supervisors, child information management specialists, paraprofessionals (teacher aides), and a technology director.

Administration support services disbursements increased in fiscal year 2006 from the change in coding of employees and related purchased services and office supplies for those individuals.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction:				
Regular	\$1,211,619	\$900,717	\$499,128	\$379,055
Special	2,389,070	2,364,797	(508,406)	(751,453)
Support Services:				
Pupils	1,455,630	1,459,007	(450,230)	79,322
Instructional Staff	189,697	179,158	102,796	88,279
Board of Education	16,320	7,204	16,320	7,204
Administration	434,807	311,299	434,807	308,299
Fiscal	159,365	116,382	157,783	109,545
Operation and Maintenance of Plant	47,305	51,085	47,305	51,085
Pupil Transportation	45,427	39,039	35,196	39,039
Central	7,635	6,554	(2,060)	3,034
Non-instructional Services	22,541	5,423	22,541	5,423
Debt Service:				
Principal Retirement	9,600	9,600	9,600	9,600
Total Disbursements	\$5,989,016	\$5,450,265	\$364,780	\$328,432

Program receipts provided for 94 percent of the Center's costs for services. Most of the program receipts are associated with regular instruction, special instruction, and pupil support services in fiscal year 2006. Instructional programs are charged to school districts and recorded by the Center as charges for services receipts for activities related to regular and special instruction. Therefore, the special instruction program appears to be over funded while the instructional staff support services program seems to be somewhat under funded.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

THE EDUCATIONAL SERVICE CENTER'S FUNDS

The Center's governmental funds are accounted for using the cash basis of accounting. The fund balance in the General Fund increased by \$737,527, or 89 percent. The increase was from the costs reimbursed by the two community schools sponsored by the Center.

GENERAL FUND BUDGETING HIGHLIGHTS

The Center's budget is prepared according to the requirements specified by the Board of Education and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2006, the Center amended its General Fund budget as needed. Estimated receipts did not reflect the payment of services rendered to the two community schools that is included as charges for services in actual receipts.

The Center appropriates on the function level for the General Fund. There was an insignificant increase between original and final appropriations. Final disbursements were budgeted at \$5,230,053 while actual disbursements were \$5,534,493, or almost 6 percent over the final budget. For fiscal year 2006, the Center intended to report all payments for services rendered to the two community schools as a reduction of disbursements in regular instruction rather than as charges for services receipts. The Board never modified the estimated receipts or appropriations to correct the issue.

CURRENT ISSUES

During fiscal year 2006, the Opportunity for Youth director, the 21st Century Grant coordinator, and assistant treasurer retired. These positions will not be replaced; thereby, reducing the future costs of operations of the Center.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Center's finances for all those interested in our Center's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Margaret J. Grimm, Treasurer, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,628,974</u>
Net Assets	
Restricted for:	
Other Purposes	65,946
Unrestricted	<u>1,563,028</u>
Total Net Assets	<u><u>\$1,628,974</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>(Disbursement) Receipt and Change in Net Assets</u>
				<u>Governmental Activities</u>	
Governmental Activities					
Instruction:					
Regular	\$1,211,619	\$260,341	\$452,150	(\$499,128)	
Special	2,389,070	2,691,434	206,042	508,406	
Support Services:					
Pupils	1,455,630	1,902,860	3,000	450,230	
Instructional Staff	189,697	86,901		(102,796)	
Board of Education	16,320			(16,320)	
Administration	434,807			(434,807)	
Fiscal	159,365	1,582		(157,783)	
Operation and Maintenance of Plant	47,305			(47,305)	
Pupil Transportation	45,427			(35,196)	
Central	7,635	6,695	3,000	2,060	
Non-instructional Services	22,541			(22,541)	
Debt Service					
Principal Retirement	9,600			(9,600)	
Total Governmental Activities	<u>\$5,989,016</u>	<u>\$4,949,813</u>	<u>\$664,192</u>	<u>\$10,231</u>	<u>(364,780)</u>
General Receipts					
Grants and Entitlements Not Restricted to Specific Programs				1,063,915	
Interest				33,787	
Miscellaneous				70,560	
Total General Receipts				<u>1,168,262</u>	
Change in Net Assets				803,482	
Net Assets at Beginning of Year				<u>825,492</u>	
Net Assets at End of Year				<u><u>\$1,628,974</u></u>	

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$1,563,028</u>	<u>\$65,946</u>	<u>\$1,628,974</u>
Fund Balances			
Reserved for Encumbrances	23,366	18,045	41,411
Unreserved, Reported in			
General Fund	1,539,662		1,539,662
Special Revenue Funds (Deficit)		47,901	47,901
Total Fund Balances (Deficit)	<u>\$1,563,028</u>	<u>\$65,946</u>	<u>\$1,628,974</u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts			
Intergovernmental	\$1,178,143	\$559,795	\$1,737,938
Interest	33,787		33,787
Tuition and Fees	260,341		260,341
Charges for Services	4,705,823		4,705,823
Extracurricular Activities		6,310	6,310
Gifts and Donations		400	400
Miscellaneous	70,560		70,560
Total Receipts	<u>6,248,654</u>	<u>566,505</u>	<u>6,815,159</u>
Disbursements			
Current:			
Instruction:			
Regular	976,973	234,646	1,211,619
Special	2,283,500	105,570	2,389,070
Support Services:			
Pupils	1,427,807	27,823	1,455,630
Instructional Staff	162,801	26,896	189,697
Board of Education	16,320		16,320
Administration	367,427	67,380	434,807
Fiscal	182,026		182,026
Operation and Maintenance of Plant	44,235	3,070	47,305
Pupil Transportation	35,803	9,624	45,427
Central	4,635	3,000	7,635
Non-instructional Services		22,541	22,541
Debt Service:			
Principal Retirement	9,600		9,600
Total Disbursements	<u>5,511,127</u>	<u>500,550</u>	<u>6,011,677</u>
Changes in Fund Balances	737,527	65,955	803,482
Fund Balances at Beginning of Year	<u>825,501</u>	<u>(9)</u>	<u>825,492</u>
Fund Balances (Deficit) at End of Year	<u><u>\$1,563,028</u></u>	<u><u>\$65,946</u></u>	<u><u>\$1,628,974</u></u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$18,410</u>
Net Assets	
Held for Students	<u><u>\$18,410</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Auglaize County Educational Service Center (the "Center") is located in Wapakoneta, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts, the St. Marys and Wapakoneta City School Districts, and the Auglaize County Educational Academy and Auglaize County Special Needs School (community schools). The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Center has twelve administrators, eighty classified employees, and forty-three certified employees who provide services to the local and city school districts and the community schools.

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 Center consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student-related activities.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Center is obligated for the debt of the organization. There are no component units of the Center.

The Center is associated with five jointly governed organizations and three insurance pools. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Schools of Ohio Risk Sharing Authority, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 11 and 12 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Center's accounting policies.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the cash balance of the governmental activities of the Center at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Center's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Center's funds are classified into two categories: governmental and fiduciary.

1. Governmental Funds

The Center classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The Center's only major fund is the General Fund.

General Fund - The General Fund 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 Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

The only fiduciary fund held by the center is the agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's agency fund accounts for the Assistive Technology Center, which falls under the Special Education Regional Resource Center.

C. Basis of Accounting

The Center's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Center's financial records and reported on the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded on the financial statements.

D. Cash and Investments

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

During fiscal year 2006, the Center had no investments.

The Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2006 was \$33,787, which included \$652 assigned from other Center funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Center.

G. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditure for specified purposes. At June 30, 2006, there were no net assets restricted by enabling legislation.

The Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Fund Balance Reserves

The Center reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

J. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Center has a financial or administrative role in the grants, the grants are reported in a special revenue fund. For fiscal year 2006, this consisted of the Preschool Handicapped special revenue fund

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

4. DEPOSITS AND INVESTMENTS

Monies held by the Center are classified by State statute into three categories.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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.

Interim monies held by the Center 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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. 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; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Center's deposits was \$1,647,384, and \$1,688,818 of the Center's bank balance of \$1,788,818 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

5. STATE FUNDING

The Center, under State law, provides supervisory services to the local school districts within its territory. Each city school district that entered into an agreement with the Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law.

The State Department of Education apportions the costs for all supervisory services among the Center's school districts based on each school district's total student count. The State Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Center. The Center may provide additional supervisory services if the majority of the school districts agree to the services and the apportionment of the costs.

The Center also receives funding from the State Department of Education, in the amount of \$37.00 multiplied by the average daily membership of the Center. Average daily membership includes the total student counts of all of the local school districts served by the Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Center.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. RISK MANAGEMENT

The 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.

For fiscal year 2006, the Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant. Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

Property	\$1,773,266
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Automobile Liability	1,000,000
Excess Liability	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.

The Center participates in the Mercer Auglaize School Employee Benefit Trust (Trust), a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Center pays monthly premiums to the Trust for employee medical, dental, and vision 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.

The Center participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The third party administrator, Sheakley Uniservice, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the Plan.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The 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 to members and death and survivor benefits to 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment.

The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2006, 2005, and 2004 was \$305,448, \$308,600, and \$302,531, respectively; 85 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. Contributions for the DCP and CP for the fiscal year ended June 30, 2006, were \$6,402 made by the Center and \$12,132 made by plan members.

B. School Employees Retirement System

The 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2006 was 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$128,836, \$93,125, and \$85,529, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004.

C. Social Security System

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, 2006, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. POST-EMPLOYMENT BENEFITS

The 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of 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 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount was \$23,988.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000, and STRS had 119,184 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. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. For the Center, the amount to fund health care benefits, including the surcharge, was \$59,913 for fiscal year 2006.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from State laws. Eleven and twelve-month employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to eleven and twelve-month employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-five days for classified employees with ten or more years of service. Certified employees with five or more years of service are entitled to one-fourth of accrued but unused sick leave credit to a maximum of forty-five days upon retirement.

B. Health Care Benefits

The Center offers medical, dental, vision and prescription insurance to most employees through the Mercer Auglaize School Employee Benefit Trust. In addition, the Center offers life insurance through CoreSource Insurance Agency.

10. LONG-TERM OBLIGATIONS

Changes in the Center's long-term obligations during fiscal year 2006 were as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Loans Payable	\$43,200	\$0	\$9,600	\$33,600

In fiscal year 2000, the Center entered into a loan agreement with the Auglaize County Commissioners for the construction of a new building. The agreement requires a repayment of \$9,600 per year for ten years. The loan will be fully repaid on November 1, 2009. The loan is interest free and is being repaid from the General Fund.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

The West Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the educational entities located 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 the Hancock County Center, 7746 County Road 140, Findlay, Ohio 45840.

B. West Central Ohio Special Education Regional Resource Center (SERRC)

The 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 through June 30, 2006, can be obtained from the Hardin County Educational Service Center, 1121 West Lima Street, Kenton, Ohio 43326-2385. Financial information from July 1, 2006 to present can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite #2, Wapakoneta, Ohio 45895.

C. Western Ohio Computer Organization (WOCO)

The Center is a participant in WOCO. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby 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 governing board of WOCO consists of two representatives from each county elected by majority vote of all charter educational entities within each county plus a representative from the fiscal agent educational entity. During fiscal year 2006, the Center paid \$4,243 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

D. Auglaize County Educational Academy (ACEA)

The Center is a participant in the ACEA, which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Auglaize County Special Needs School (ACSNS)

The Center is a participant in the ACSNS, which is a community school. The ACSNS is an association of the school districts within Auglaize County to provide a special education program for kindergarten through twelfth grade students with multiple handicapped, emotionally disturbed, or autistic needs. The governing board of the ACSNS consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

12. INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority (SORSA)

The Center participates in SORSA, an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated 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. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Mercer Auglaize School Employee Benefit Trust

The Center participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision 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.

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 James Mauntler, JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio, 43614.

C. Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The OASBO Workers' Compensation Group Rating Plan (Plan) was established through the Ohio Association of School Business Officials as an insurance purchasing pool. The Plan's business and affairs are conducted by the five member OASBO Board of Directors. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. CONTINGENCIES

A. Grants

The 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 Center at June 30, 2006.

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**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
Receipts				
Intergovernmental	\$397,000	\$402,000	\$1,178,143	\$776,143
Interest	8,000	8,000	33,787	25,787
Tuition and Fees	276,125	277,375	260,341	(17,034)
Charges for Services	4,590,750	4,596,425	4,705,823	109,398
Miscellaneous	31,000	31,000	70,560	39,560
Total Receipts	5,302,875	5,314,800	6,248,654	933,854
Disbursements				
Current:				
Instruction:				
Regular	686,423	512,554	979,991	(467,437)
Special	2,319,702	2,283,970	2,285,095	(1,125)
Support Services:				
Pupils	1,470,428	1,470,463	1,436,985	33,478
Instructional Staff	136,980	196,990	163,353	33,637
Board of Education	3,100	17,104	16,386	718
Administration	307,810	407,820	371,109	36,711
Fiscal	150,669	195,671	183,392	12,279
Operation and Maintenance of Plant	96,125	90,028	46,464	43,564
Pupil Transportation	38,050	40,053	37,303	2,750
Central	6,800	5,800	4,815	985
Debt Service:				
Principal Retirement	7,000	9,600	9,600	
Total Disbursements	5,223,087	5,230,053	5,534,493	(304,440)
Changes in Fund Balance	79,788	84,747	714,161	629,414
Fund Balance at Beginning of Year	800,534	800,534	800,534	
Prior Year Encumbrances Appropriated	24,967	24,967	24,967	
Fund Balance at End of Year	\$905,289	\$910,248	\$1,539,662	\$629,414

See accompanying notes to the schedule.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Budgetary Process

The Center is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and appropriations for all funds. The Center amends the budget through out the fiscal year as necessary. During the June meeting (near the end of June), the Board approves the final budget to closely coincide with actual expenditures.

Budgetary Basis of Accounting

The Statement of Receipts, Disbursements and Change in Fund Balance – Budget and Actual – Budget Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the cash basis is that encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (cash basis).

The adjustments necessary to reconcile the cash and budgetary basis statements for the General Fund are as follows:

Fund Balance	
Cash Basis	\$1,563,028
Encumbrances Outstanding	<u>(23,366)</u>
Budget Basis	<u><u>\$1,539,662</u></u>

**AUGLAIZE COUNTY EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Educational Service Center (ESC):				
U.S. Department of Health and Human Services (Passed through the Ohio Department of Mental Retardation and Developmental Disabilities) Medical Assistance Program (CAFS)		93.778	\$1,557	
Total U.S. Department of Health and Human Services			1,557	
U.S. Department of Education (Passed through Ohio Department of Education) <i>Special Education Cluster:</i> Special Education Preschool Grants		84.173	89,437	\$89,437
Twenty First Century Community Learning Centers		84.287	299,980	256,472
English Language Acquisition Grants		84.365	24,688	24,688
Total U.S. Department of Education			414,105	370,597
Total Federal Financial Assistance for ESC			415,662	370,597
West Central Ohio Special Education Regional Resource Center (SERRC)				
U.S. Department of Education (Passed through Ohio Department of Education) <i>Special Education Cluster:</i> Special Education Grants to States (IDEA Part B)		84.027	786,011	752,433
Special Education State Personnel Development		84.323	88,160	98,586
Total U.S. Department of Education			874,171	851,019
Total Federal Financial Assistance for SERRC			874,171	851,019
Total Federal Financial Assistance			\$1,289,833	\$1,221,616

See accompanying notes to the Schedule of Federal Awards Expenditures.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)

The West Central Ohio Special Education Regional Resource Center (SERRC) is an organization comprised of the Educational Service Centers in Allen, Auglaize, Champaign, Hardin, Logan, Mercer and Shelby Counties. The purpose of the organization is to assist schools to develop quality special education programs and services. The governing board is made up of superintendents from the schools, parents of children with disabilities, and representatives of chartered nonpublic schools and universities.

The SERRC is funded through the Ohio Department of Education in the form of Special Education Grants to States (IDEA Part B) federal grant. Any deficit in funding is charged to each member Center in its proportionate share. The Auglaize County Educational Service Center serves as fiscal agent (see Note 11 to the 2007 Basic Financial Statements) for the West Central Ohio SERRC and reports the activity within an agency fund in the financial statements. The Federal grants are audited as part of the Center and are separately identified on the Schedule of Federal Awards Expenditures.

NOTE C – FEDERAL AWARDS EXPENDITURES ADMINISTERED FOR OTHER GOVERNMENTS

The Center applies for and administers grants on behalf of member school districts. The Center reports these grants on their schedule of federal awards expenditure programs and they are subject to audit during the Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Center which benefit member districts are as follows:

District	Fiscal Year 2007 Award Amount IDEA Preschool
Minster Local School District	\$8,427
New Bremen Local School District	9,825
New Knoxville Local School District	4,989
St Marys City School District	33,058
Wapakoneta City School District	25,404
Waynesfield-Goshen Local School District	7,734
Total Grant	\$89,437



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite #2
Wapakoneta, Ohio 45895

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Auglaize County, (the Center), as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 17, 2007 wherein, we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Center's management in a separate letter dated December 17, 2007.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 17, 2007



Mary Taylor, CPA

Auditor of State

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

Educational Service Center
Auglaize County
1045 Dearbaugh Avenue, Suite #2
Wapakoneta, Ohio 45895

To the Board of Education:

Compliance

We have audited the compliance of the Auglaize County Educational Service Center (the Center), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Auglaize County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

**Internal Control Over Compliance
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to administer a federal program such that there is more than a remote likelihood that the Center's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Center's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 17, 2007

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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):	Special Education Cluster: SERRC: Special Education Grants to States - (IDEA Part B) CFDA #84.027 ESC: Special Education Preschool Grants - (IDEA Preschool) 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?	No

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

FINDING NUMBER 2007-001

Noncompliance - Financial Reporting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

The Center prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Educational Service Center should prepare their financial statements in accordance with generally accepted accounting principles.

Officials' Response

Due to cost concerns, the Auglaize County Educational Service Center will not prepare financial reports in accordance with GAAP.

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	The annual financial report was not prepared in accordance with generally accepted accounting principles.	No	Repeated as Finding 2007-001



Mary Taylor, CPA
Auditor of State

AUGLAIZE EDUCATIONAL SERVICE CENTER

AUGLAIZE 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
FEBRUARY 12, 2008**