EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2002 - 2001

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

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OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Auglaize County, (the "Center") as of and for the years ended June 30, 2002 and June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, Auglaize County, as of June 30, 2002 and June 30, 2001, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2002, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

October 20, 2002

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACOUNT GROUPS
AS OF JUNE 30, 2002

	Governmental Fund Types			Account Groups		
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	$740,143	$55,418	$18,490			$814,051
Receivables:						
Accounts	169					169
Intergovernmental	491,951	1,712				493,663
Prepaid Items	37,696	129				37,825
Fixed Assets				$1,622,952		1,622,952
Other Debits:						
Amount to be Provided from General Governmental Resources					$250,614	250,614
Total Assets and Other Debits	1,269,959	57,259	18,490	1,622,952	250,614	3,219,274
Liabilities, Fund Equity and Other Credits:						
Liabilities:						
Accounts Payable	17,472	5,698	2,762			25,932
Contracts Payable	2,400		62,460			64,860
Retainage Payable			6,940			6,940
Accrued Wages and Benefits	459,434	10,813				470,247
Compensated Absences Payable	6,596				160,495	167,091
Intergovernmental Payable	66,990	8,028			18,319	93,337
Notes Payable					71,800	71,800
Total Liabilities	552,892	24,539	72,162		250,614	900,207
Fund Equity and Other Credits:						
Investment in General Fixed Assets				1,622,952		1,622,952
Fund Balance:						
Reserved for Encumbrances	8,332	10,894				19,226
Unreserved	708,735	21,826	(53,672)			676,889
Total Fund Equity and Other Credits	717,067	32,720	(53,672)	1,622,952		2,319,067
Total Liabilities, Fund Equity and Other Credits	$1,269,959	$57,259	$18,490	$1,622,952	$250,614	$3,219,274

See accompanying notes to the general purpose financial statements.

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

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

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Intergovernmental	$2,645,612	$244,964	$6,595	$2,897,171
Interest	21,531			21,531
Tuition and Fees	229,871			229,871
Extracurricular Activities		4,990		4,990
Gifts and Donations	1,395			1,395
Customer Services	1,620,724			1,620,724
Other	56,379			56,379
Total Revenues	4,575,512	249,954	6,595	4,832,061
Expenditures:				
Current:				
Instruction:				
Regular	262,974	88,400		351,374
Special	1,955,535	4,915		1,960,450
Other		14,160		14,160
Support Services:				
Pupils	1,285,316			1,285,316
Instructional Staff	404,057	93,420	2,318	499,795
Board of Education	17,266			17,266
Administration	254,175	8,765		262,940
Fiscal	100,333	2,444		102,777
Operation and Maintenance of Plant	43,827			43,827
Pupil Transportation	20,789			20,789
Central	2,761		6,595	9,356
Capital Outlay			77,047	77,047
Intergovernmental	48,944	64,000		112,944
Debt Service				
Principal Retirement	9,600			9,600
Total Expenditures	4,405,577	276,104	85,960	4,767,641
Excess of Revenues Over (Under) Expenditures	169,935	(26,150)	(79,365)	64,420
Other Financing Sources:				
Operating Transfers In			22,181	22,181
Operating Transfers Out	(22,181)			(22,181)
Total Other Financing Sources and Uses	(22,181)		22,181	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	147,754	(26,150)	(57,184)	64,420
Fund Balances at Beginning of Year	569,313	58,870	3,512	631,695
Fund Balances at End of Year	$717,067	$32,720	($53,672)	$696,115

See accompanying notes to the general purpose financial statements.

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

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

	General Fund		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$2,774,139	$2,642,423	($131,716)
Interest	22,000	21,531	(469)
Tuition and Fees	220,200	216,769	(3,431)
Extracurricular Activities			
Gifts and Donations	1,425	1,395	(30)
Customer Services	1,432,000	1,427,239	(4,761)
Miscellaneous	57,300	56,014	(1,286)
Total Revenues	4,507,064	4,365,371	(141,693)
Expenditures:			
Current			
Instruction:			
Regular	359,813	307,004	52,809
Special	2,706,750	1,968,582	738,168
Other			
Support Services:			
Pupils	1,661,234	1,376,692	284,542
Instructional Staff	540,500	455,997	84,503
Board of Education	22,500	13,098	9,402
Administration	323,221	262,980	60,241
Fiscal	153,232	118,862	34,370
Operation and Maintenance of Plant	46,150	44,522	1,628
Pupil Transportation	34,380	20,339	14,041
Central	12,000	5,062	6,938
Capital Outlay			
Debt Service			
Principal Retirement	9,600	14,600	(5,000)
Total Expenditures	5,869,380	4,587,738	1,281,642
Excess of Revenues Over (Under) Expenditures	(1,362,316)	(222,367)	1,139,949
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures	450	421	(29)
Operating Transfers In			
Operating Transfers Out	(27,300)	(22,181)	5,119
Total Other Financing Sources (Uses)	(26,850)	(21,760)	5,090
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,389,166)	(244,127)	1,145,039
Fund Balances at Beginning of Year	685,080	685,080	
Prior Year Encumbrances Appropriated	282,119	282,119	
Fund Balances (Deficit) at End of Year	($421,967)	$723,072	$1,145,039

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$260,052	$260,052		$6,595	$6,595		$3,040,786	$2,909,070	($131,716)
						22,000	21,531	(469)
						220,200	216,769	(3,431)
5,500	4,990	($510)				5,500	4,990	(510)
						1,425	1,395	(30)
						1,432,000	1,427,239	(4,761)
						57,300	56,014	(1,286)
265,552	265,042	(510)	6,595	6,595		4,779,211	4,637,008	(142,203)
95,890	78,751	17,139				455,703	385,755	69,948
78,746	67,483	11,263				2,785,496	2,036,065	749,431
14,175	14,175					14,175	14,175	
						1,661,234	1,376,692	284,542
105,657	96,097	9,560	2,318	2,318		648,475	554,412	94,063
						22,500	13,098	9,402
16,088	14,438	1,650				339,309	277,418	61,891
3,000	2,444	556				156,232	121,306	34,926
						46,150	44,522	1,628
						34,380	20,339	14,041
3,847	3,847		6,595	6,595		22,442	15,504	6,938
			8,693	7,647	$1,046	8,693	7,647	1,046
						9,600	14,600	(5,000)
317,403	277,235	40,168	17,606	16,560	1,046	6,204,389	4,881,533	1,322,856
(51,851)	(12,193)	39,658	(11,011)	(9,965)	1,046	(1,425,178)	(244,525)	1,180,653
						450	421	(29)
			22,200	22,181	(19)	22,200	22,181	(19)
						(27,300)	(22,181)	5,119
			22,200	22,181	(19)	(4,650)	421	5,071
(51,851)	(12,193)	39,658	11,189	12,216	1,027	(1,429,828)	(244,104)	1,185,724
44,973	44,973		3,512	3,512		733,565	733,565	
6,046	6,046					288,165	288,165	
($832)	$38,826	$39,658	$14,701	$15,728	$1,027	($408,098)	$777,626	$1,185,724

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1. 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; and the St. Marys and Wapakoneta City School Districts. 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 one administrator, sixty-eight classified employees, and fifty-six certified employees who provide services to the local and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

The primary government of the 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.

Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Center.

The Center is associated with three jointly governed organizations and three insurance pools. These organizations are the Western Ohio Computer Organization, West Central Ohio Special Education Regional Resource Center, West Central Regional Professional Development Center, Mercer/Auglaize Employee Benefit Trust, Ohio School Boards Association Workers’ Compensation Group Rating Plan and the Ohio School Risk Sharing Authority. These organizations are presented in Notes 14 and 15 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the Center’s accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Center are grouped into a generic fund type under the broad fund categories of governmental.

1. Governmental Fund Types:

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

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

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

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Account Groups:

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. The estimated resources may be amended or supplemented throughout the year as circumstances warrant.

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

1. Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Center's Board. The Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Center has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2002 was $21,531, which included approximately $3,655 assigned from other Center funds.

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

E. Prepaid Items

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

F. Fixed Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

G. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for employees who have five years of current service with the Center.

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

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources.

I. Fund Balance Reserves

The Center records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity 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 school districts within the county. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2002, these funds included the Local Professional Development, Eisenhower, Title VI-R, and Handicapped Preschool special revenue funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

The Permanent Improvement Capital Projects fund had a deficit fund balance at June 30, 2002, of $53,672, due to the implementation of Generally Accepted Accounting Principles.

4. BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

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

	General	Special Revenue	Capital Projects
GAAP Basis	$147,754	($26,150)	($57,184)
Increase (Decrease) Due to:			
Revenue Accruals:	(209,720)	15,088	0
Prepaids	(9,841)	593	0
Expenditure Accruals	(155,249)	14,868	72,162
Encumbrances	(17,071)	(16,592)	(2,762)
Budget Basis	($244,127)	($12,193)	12,216

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Center has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and the 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 two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

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

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

At fiscal year end, the carrying amount of the Center's deposits was $814,051 and the bank balance was $933,319. Of the bank balance, $100,000 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

The Center had no investments during the fiscal year or at fiscal year end.

6. STATE FUNDING

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

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

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

The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

7. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts (billings for user charged services) and intergovernmental. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30, 2002, were $169. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Customer Services	$455,661
Reimbursements	20,909
Tuition	15,381
Total General Fund	491,951
Special Revenue Funds	
Handicapped Preschool	1,712
Total Intergovernmental Receivables	$493,663

8. FIXED ASSETS

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

Asset Category	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Buildings	$1,217,445	$7,647	$0	$1,225,092
Furniture and Equipment	260,173	36,773	12,474	284,472
Vehicles	107,987	4,801	0	112,788
Books	600	0	0	600
Total	$1,586,205	$49,221	$12,474	$1,622,952

9. 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. During fiscal year 2002, the Center contracted for the following insurance coverages.

Coverage provided by Nationwide Insurance::	
Property and Contents ($1,000 deductible)	$1,713,300
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Business Auto	
Per Occurrence	1,000,000
Aggregate	3,000,000
Coverage provided by Ohio School Risk Sharing Authority:	
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Business Auto	
Per Occurrence/Aggregate	1,000,000

9. RISK MANAGEMENT (Continued)

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

For fiscal year 2002, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP.

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

As of February 1, 2002, the Center chose to participate in the Ohio School Risk Sharing Authority (the Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant. (See Note 15)

The Center participates in the Mercer/Auglaize Employee Benefit Trust (Trust) (Note 15), a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two Educational Service Centers. The Center pays monthly premiums to the Trust for medical and dental benefits. 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.

10. 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, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

10. DEFINED BENEFIT PENSION PLANS (Continued)

The Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were $214,925, $209,229, and $94,713, respectively; 87 percent had been contributed in fiscal year 2002 and 100 percent has been contributed for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of $28,690, is recorded as a liability within the respective funds.

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, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 4.2 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, 2002, 2001, and 2000, were $55,848, $39,179, and $34,401, respectively; 89 percent had been contributed in fiscal year 2002 and 100 percent has been contributed for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of $5,838, is recorded as a liability within the respective funds.

C. Social Security System

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

11. POSTEMPLOYMENT 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.

11. POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $101,807. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were $300,772,000, and STRS had 102,132 eligible benefit recipients.

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.3 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at $12,400. For the Center, the amount to fund health care benefits, including the surcharge, was $105,671 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were $161,439,934, and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Employees who work year round earn ten days of vacation per fiscal year after one year of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-five days for all employees.

12. OTHER EMPLOYEE BENEFITS (Continued)

B. Health Care Benefits

The Center has elected to offer medical and dental benefits to full-time employees through the Mercer/Auglaize Employee Benefit Trust. The Center also offers life insurance to employees that are paid an average of 32.5 hours per week during the nine month school year through CoreSource. These same employees are entitled to vision care through the VSP Vision Plan.

13. LONG-TERM OBLIGATIONS

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

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Notes Payable	$86,400	$0	$14,600	$71,800
Compensated Absences Payable	161,856	0	1,361	160,495
Intergovernmental Payable	16,942	18,319	16,942	18,319
Total General Long-Term Obligations	$265,198	$18,319	$32,903	$250,614

In fiscal year 2000, the Center received an advance on rental income from the Auglaize County Commissioners to fund the construction of an additional office in the new building. The Center is required to repay this advance as the rental income is collected. The agreement required the repayment in the amount of $9,600 per year for the next ten years. The advance is interest free.

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

14. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, 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 school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Sonny Ivey, who serves as director, 129 East Court Street, Sidney, Ohio 45365.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget, and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The SERRC is governed by a governing board of fifty-two members made up of representatives from fifty superintendents of the participating districts, one non-public school, and one from Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (the Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, 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 governing board made up of fifty-two representative of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Bradley Browne, Treasurer, Hancock County Center, 7746 County Road 140, Findlay, Ohio 45840.

15. PUBLIC ENTITY RISK POOLS

A. Mercer/Auglaize Employee Benefit Trust

The Mercer/Auglaize Schools Employee Benefits Trust (the Plan) is a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident, and other benefits to the employees of the participating school districts.

Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Mid-American Bank, concerning aspects of the administration of the Trust. Each school district decides which plans offered by the Board of Trustees will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from James Mauntler, who serves as consultant with Schmidt, Long, and Associates, 4169 North Holland-Sylvania Road, Suite 203, Building 3, Toledo, Ohio 43623.

15. PUBLIC ENTITY RISK POOLS (Continued)

B. Ohio School Boards Association 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 Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

C. Ohio School Risk Sharing Authority

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

16. CONTINGENT LIABILITIES

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, 2002.

17. STATE SCHOOL FUNDING DECISION

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

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

17. STATE SCHOOL FUNDING DECISION (Continued)

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

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

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

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2001

	Governmental Fund Types			Account Groups		
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	$967,199	$51,019	$3,512			$1,021,730
Receivables:						
Accounts	2,504					2,504
Intergovernmental	555,413	16,800				572,213
Prepaid Items	27,855	722				28,577
Fixed Assets				$1,586,205		1,586,205
Other Debits:						
Amount to be Provided from General Governmental Resources					$265,198	265,198
Total Assets and Other Debits	1,552,971	68,541	3,512	1,586,205	265,198	3,476,427
Liabilities, Fund Equity and Other Credits:						
Liabilities:						
Accounts Payable	19,975	1,928				21,903
Contracts Payable	5,000					5,000
Accrued Wages and Benefits	365,782	2,885				368,667
Compensated Absences Payable	1,792				161,856	163,648
Intergovernmental Payable	315,592	4,858			16,942	337,392
Deferred Revenue	275,517					275,517
Notes Payable					86,400	86,400
Total Liabilities	983,658	9,671			265,198	1,258,527
Fund Equity and Other Credits:						
Investment in General Fixed Assets				1,586,205		1,586,205
Fund Balance:						
Reserved for Encumbrances	262,144	4,118				266,262
Unreserved	307,169	54,752	3,512			365,433
Total Fund Equity and Other Credits	569,313	58,870	3,512	1,586,205		2,217,900
Total Liabilities, Fund Equity and Other Credits	$1,552,971	$68,541	$3,512	$1,586,205	$265,198	$3,476,427

See accompanying notes to the general purpose financial statements.

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Intergovernmental	$2,621,714	$296,374		$2,918,088
Interest	55,829			55,829
Tuition and Fees	204,685			204,685
Extracurricular Activities		4,097		4,097
Gifts and Donations	1,265			1,265
Customer Services	1,252,727			1,252,727
Other	89,358	150	$73	89,581
Total Revenues	4,225,578	300,621	73	4,526,272
Expenditures:				
Current:				
Instruction:				
Regular	166,462	111,695		278,157
Special	1,543,015	4,941		1,547,956
Support Services:				
Pupils	1,233,583	8,926		1,242,509
Instructional Staff	426,863	21,339	53,663	501,865
Board of Education	13,072			13,072
Administration	172,568	36,229		208,797
Fiscal	104,100	9,620		113,720
Operation and Maintenance of Plant	16,662	20,400		37,062
Pupil Transportation	22,725			22,725
Central	3,258			3,258
Capital Outlay			382,502	382,502
Intergovernmental	41,218	146,884		188,102
Debt Service				
Principal Retirement	9,600			9,600
Total Expenditures	3,753,126	360,034	436,165	4,549,325
Excess of Revenues Over (Under) Expenditures	472,452	(59,413)	(436,092)	(23,053)
Other Financing Sources:				
Operating Transfers In	58,367		341,200	399,567
Operating Transfers Out	(341,200)	(50,367)	(8,000)	(399,567)
Total Other Financing Sources and Uses	(282,833)	(50,367)	333,200	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	189,619	(109,780)	(102,892)	(23,053)
Fund Balances at Beginning of Year	379,694	168,650	106,404	654,748
Fund Balances at End of Year	$569,313	$58,870	$3,512	$631,695

See accompanying notes to the general purpose financial statements.

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	$2,621,868	$2,619,361	($2,507)
Interest	56,000	55,829	(171)
Tuition and Fees	212,000	210,641	(1,359)
Extracurricular Activities			
Gifts and Donations	1,500	1,265	(235)
Customer Services	1,346,500	1,344,146	(2,354)
Miscellaneous	70,000	67,949	(2,051)
Total Revenues	4,307,868	4,299,191	(8,677)
Expenditures:			
Current			
Instruction:			
Regular	269,809	196,779	73,030
Special	2,034,710	1,623,864	410,846
Other			
Support Services:			
Pupils	1,577,465	1,288,789	288,676
Instructional Staff	559,798	467,254	92,544
Board of Education	15,175	13,160	2,015
Administration	269,525	191,503	78,022
Fiscal	111,964	82,855	29,109
Operation and Maintenance of Plant	16,920	16,001	919
Pupil Transportation	46,125	22,876	23,249
Central	6,210	3,264	2,946
Capital Outlay			
Debt Service			
Principal Retirement	9,600	9,600	
Total Expenditures	4,917,301	3,915,945	1,001,356
Excess of Revenues Over (Under) Expenditures	(609,433)	383,246	992,679
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures	46,250	45,319	(931)
Operating Transfers In	58,367	58,367	
Operating Transfers Out	(350,000)	(341,200)	8,800
Total Other Financing Sources (Uses)	(245,383)	(237,514)	7,869
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(854,816)	145,732	1,000,548
Fund Balances at Beginning of Year	336,476	336,476	
Prior Year Encumbrances Appropriated	202,872	202,872	
Fund Balances (Deficit) at End of Year	($315,468)	$685,080	$1,000,548

See accompanying notes to the general purpose financial statements.

Special Revenue Funds			Capital Projects Fund			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$285,135	$285,135					$2,907,003	$2,904,496	($2,507)
						56,000	55,829	(171)
						212,000	210,641	(1,359)
5,600	4,220	($1,380)				5,600	4,220	(1,380)
						1,500	1,265	(235)
						1,346,500	1,344,146	(2,354)
						70,000	67,949	(2,051)
290,735	289,355	(1,380)				4,598,603	4,588,546	(10,057)
188,286	165,732	22,554				458,095	362,511	95,584
99,426	93,337	6,089				2,134,136	1,717,201	416,935
14,175		14,175				14,175		14,175
8,925	8,926	(1)				1,586,390	1,297,715	288,675
41,677	31,921	9,756	$55,981	$53,663	$2,318	657,456	552,838	104,618
						15,175	13,160	2,015
42,335	33,775	8,560				311,860	225,278	86,582
12,620	9,620	3,000				124,584	92,475	32,109
20,800	20,400	400				37,720	36,401	1,319
						46,125	22,876	23,249
						6,210	3,264	2,946
			383,619	382,502	1,117	383,619	382,502	1,117
						9,600	9,600	
428,244	363,711	64,533	439,600	436,165	3,435	5,785,145	4,715,821	1,069,324
(137,509)	(74,356)	63,153	(439,600)	(436,165)	3,435	(1,186,542)	(127,275)	1,059,267
150	150		100	73	(27)	46,500	45,542	(958)
			341,200	341,200		399,567	399,567	
(50,367)	(50,367)		(8,000)	(8,000)		(408,367)	(399,567)	8,800
(50,217)	(50,217)		333,300	333,273	(27)	37,700	45,542	7,842
(187,726)	(124,573)	63,153	(106,300)	(102,892)	3,408	(1,148,842)	(81,733)	1,067,109
165,572	165,572		74,785	74,785		576,833	576,833	
3,974	3,974		31,619	31,619		238,465	238,465	
($18,180)	$44,973	$63,153	$104	$3,512	$3,408	($333,544)	$733,565	$1,067,109

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1. 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; and the St. Marys and Wapakoneta City School Districts. 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 one administrator, fifty classified employees, and fifty-two certified employees who provide services to the local and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

The primary government of the 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. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Center.

The Center is associated with three jointly governed organizations and two insurance pools. These organizations are the Western Ohio Computer Organization, West Central Ohio Special Education Regional Resource Center, West Central Regional Professional Development Center, Mercer/Auglaize Employee Benefit Trust, and Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 to the general purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the Center's accounting policies.

A. Basis of Presentation - Fund Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For financial statement presentation purposes, the various funds of the Center are grouped into the generic fund type under the broad fund categories of governmental.

1. Governmental Fund Types:

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

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

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

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

The Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center’s Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. The estimated resources may be amended or supplemented throughout the year as circumstances warrant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Center's Board.

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

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Center has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2001 was $55,829, which included approximately $13,000 assigned from other Center funds.

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

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which the services are consumed.

F. Fixed Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for employees who have five years of current service with the Center. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than sixty days after fiscal year end are considered not to have used current available expendable resources.

I. Fund Balance Reserves

The Center records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity 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 school districts within the county. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2001, these funds included the Local Professional Development, Drug Free, Eisenhower, Title VI-B, Title VI-R, and Handicapped Preschool special revenue funds.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Total Columns on General Purpose Financial Statements

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 33*, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues".* These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources.

The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenues must be available. For the Center, the implementation of these statements had no material effect on fund balances as previously reported for the fiscal year ended June 30, 2000.

4. BUDGETARY BASIS OF ACCOUNTING

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

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

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

	General	Special Revenue
GAAP Basis	$189,619	($109,780)
Increase (Decrease) Due to:		
Revenue Accruals:	118,933	(11,117)
Prepaids	(3,307)	(485)
Expenditure Accruals	122,606	2,855
Encumbrances	(282,119)	(6,046)
Budget Basis	$145,732	($124,573)

5. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Center has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

5. DEPOSITS AND INVESTMENTS (Continued)

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 the 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 two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

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

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

At fiscal year end, the carrying amount of the Center's deposits was $1,021,730 and the bank balance was $1,133,243. Of the bank balance, $113,974 was covered by federal depository insurance. The remaining balance was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

The Center had no investments during the fiscal year or at fiscal year end.

6. STATE FUNDING

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

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

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

7. RECEIVABLES

Receivables at June 30, 2001, consisted of accounts (billings for user charged services) and intergovernmental. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. Accounts receivable at June 30, 2001, were $2,504. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Customer Services	$292,369
Ohio Department of MRDD	191,574
Reimbursements	17,720
Tutor Expenses	53,750
Total General Fund	555,413
Special Revenue Funds	
Community Center	16,800
Total Intergovernmental Receivables	$572,213

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

Asset Category	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
Buildings	$825,956	$391,489	$0	$1,217,445
Furniture and Equipment	242,807	47,904	30,538	260,173
Vehicles	100,837	7,150	0	107,987
Books	600	0	0	600
Total	$1,170,200	$446,543	$30,538	$1,586,205

9. 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. During fiscal year 2001, the Center contracted for the following insurance coverages.

Coverages provided by Nationwide Insurance:	
Property and Contents	$1,514,900
General Liability	
Per Occurrence	2,000,000
Aggregate	5,000,000
Umbrella	2,000,000
Business Auto	2,000,000

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

For fiscal year 2001, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

The Center participates in the Mercer/Auglaize Employee Benefit Trust (Trust) (Note 15), a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two Educational Service Centers. The Center pays monthly premiums to the Trust for medical and dental benefits. 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.

10. 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, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 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 to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were $209,229, $94,713, and $84,760, respectively; none had been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of $209,229, is recorded as a liability within the respective funds.

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 plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 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, 2001, 2000, and 1999, were $39,179, $34,401, and $40,490, respectively; 75 percent has been contributed for fiscal years 2001, and 100 percent for 2000, and 1999.

10. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2001, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled $99,108.

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

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

For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay has been established at $12,400. For the Center, the amount to fund health care benefits, including the surcharge, was $108,361 for fiscal year 2001.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001, were $161,439,934, and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Employees who work year round earn ten days of vacation per fiscal year after one year of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of forty-five days for all employees.

B. Health Care Benefits

The Center has elected to offer medical and dental benefits to full-time employees through the Mercer/Auglaize Employee Benefit Trust. The Center also offers life insurance to employees that are paid an average of 32.5 hours per week during the nine month school year through CoreSource. These same employees are entitled to vision care through the VSP Vision Plan.

13. LONG-TERM OBLIGATIONS

The changes in the Center's long-term obligations for fiscal year 2001 are as follows:

	Balance at 6/30/00	Additions	Reductions	Balance at 6/30/01
Notes Payable	$96,000	$0	$9,600	$86,400
Compensated Absences Payable	122,780	39,076	0	161,856
Intergovernmental Payable	20,876	16,942	20,876	16,942
Total General Long-Term Obligations	$239,656	$56,018	$30,476	$265,198

In fiscal year 2000, the Center received an advance on rental income from the Auglaize County Commissioners to fund the construction of an additional office in the new building. The Center is required to repay this advance as the rental income is collected. The agreement required the repayment in the amount of $9,600 per year for the next ten years. The advance is interest free.

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

14. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, 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 school districts.

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. Financial information can be obtained from Sonny Ivey, who serves as director, 129 East Court Street, Sidney, Ohio 45365.

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget, and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a governing board of fifty-two members made up of representatives from fifty superintendents of the participating districts, one non-public school, and one from Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

C. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (the Center) is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, 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 governing board made up of fifty-two representative of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Bradley Browne, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

15. PUBLIC ENTITY RISK POOLS

A. Mercer/Auglaize Employee Benefit Trust

The Mercer/Auglaize Schools Employee Benefits Trust (the Plan) is a public entity shared risk pool consisting of eight local school districts, two city school districts, one exempted village school district, and two educational service centers. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident, and other benefits to the employees of the participating school districts.

15. PUBLIC ENTITY RISK POOLS (Continued)

Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Mid-American Bank, concerning aspects of the administration of the Trust. Each school district decides which plans offered by the Board of Trustees will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from James Mauntler, who serves as consultant with Schmidt, Long, and Associates, 4169 North Holland-Sylvania Road, Suite 203, Building 3, Toledo, Ohio 43623.

B. Ohio School Boards Association 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 Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

16. CONTINGENT LIABILITIES

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2001.

17. STATE SCHOOL FUNDING DECISION

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

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

17. STATE SCHOOL FUNDING DECISION (Continued)

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

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

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

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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL 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 Educational Service Center, Auglaize County, (the "Center"), as of and for the years ended June 30, 2002 and June 30, 2001, and have issued our report thereon dated October 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

Jim Petro
Auditor of State

October 20, 2002

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2000-10206-001	ORC 5705.41 (D) - Certification of Fiscal Officer	Yes	

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AUGLAIZE COUNTY 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
DECEMBER 5, 2002