



**Auditor of State
Betty Montgomery**

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Government-wide Financial Statements - For the Fiscal Year Ended June 30, 2005:	
Statement of Net Assets – Cash Basis	9
Statement of Activities – Cash Basis.....	10
Fund Financial Statements For the Fiscal Year Ended June 30, 2005:	
Statement of Assets and Fund Balances - Cash Basis – Governmental Funds.....	11
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances – Cash Basis - Governmental Funds	12
Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash Balance - Budget and Actual – (Budget Basis) - General Fund.....	13
Notes to the Basic Financial Statements	15
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	29
Schedule of Findings.....	31

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Auglaize County, (the Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information, of the Educational Service Center, Auglaize County, as of June 30, 2005, and the respective changes in cash financial position and the budgetary comparisons for the General Fund, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the fiscal year ended June 30, 2005, the Service Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2006, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

April 12, 2006

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Auglaize County Educational Service Center's financial performance provides an overview of the Service Center's financial activities for the fiscal year ended June 30, 2005, within the limitations of cash basis accounting. The intent of this discussion and analysis is to look at the Service Center's financial performance as a whole.

USING THIS ANNUAL REPORT

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

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

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

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

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

REPORTING THE SERVICE CENTER AS A WHOLE

The statement of net assets and the statement of activities reflect how the Service Center did financially during fiscal year 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the Service Center at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the Service Center's governmental activities.

A function is a group of related activities designed to accomplish a major service or regulatory program for which the Service Center is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Service Center's general receipts.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

These statements report the Service Center's cash position and the changes in cash position. Factors which contribute to these changes may also include the Service Center's facility conditions, required educational programs, and other factors. In the statement of net assets and the statement of activities, all of the Service Center's activities are presented as governmental activities including instruction, support services, and non-instructional services disbursements.

REPORTING THE SERVICE CENTER'S MOST SIGNIFICANT FUNDS

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

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

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

THE SERVICE CENTER AS A WHOLE

Table 1 provides a summary of the Service Center's net assets for fiscal year 2005 and fiscal year 2004:

	2005	2004
Table 1 Net Assets		
Assets:		
Cash and Cash Equivalents	<u>\$825,492</u>	<u>\$699,300</u>
Net Assets:		
Restricted	-	28,160
Unrestricted	<u>825,492</u>	<u>671,140</u>
Total Net Assets	<u>\$825,492</u>	<u>\$699,300</u>

Total net assets increased \$126,192, or 18 percent. The primary reasons contributing to the increase in cash balances were from the reduction of costs for a curriculum director and a portion of the costs associated with staff time reimbursed by the two community schools to which the Service Center provides services.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2005. Since the Service Center did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

Receipts:	
Program Receipts	
Charges for Services	\$3,848,641
Operating Grants and Contributions	1,273,192
Total Program Receipts	5,121,833
General Receipts	
Grants and Entitlements	381,326
Interest	20,565
Miscellaneous	52,733
Total General Receipts	454,624
Total Receipts	5,576,457
Disbursements:	
Instruction:	
Regular	900,717
Special	2,364,797
Support Services:	
Pupils	1,459,007
Instructional Staff	179,158
Board of Education	7,204
Administration	311,299
Fiscal	116,382
Operation and Maintenance of Plant	51,085
Pupil Transportation	39,039
Central	6,554
Non instructional Services	5,423
Debt Service	9,600
Total Disbursements	5,450,265
Increase in Net Assets	\$126,192

Program receipts represented 92 percent of total receipts and are primarily represented by charges for educational programs provided to the school districts served by the Service Center. Charges for services were 69 percent of total receipts. The services being charged to the school districts involve various instruction and support services. The Service Center provides services to two city school districts, four local school districts, and two community schools.

Disbursements related to the services charged to school districts are a large portion of the Service Center's budget with 43 percent of overall expenses directly related to special instruction activities including instruction of gifted, multiple disabled, hearing impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, and preschool disabled children.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Regular instruction costs (almost 17 percent) include opportunity program, alternative program, suspension program, typical preschool program, and intervention tutors.

Pupil support services were 27 percent of total disbursements. These disbursements include the costs of supervisors, child information management specialists, paraprofessionals (teacher aides), and a technology director.

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

**Table 3
Governmental Activities**

	Total Cost Of Services	Net Cost Of Services
	2005	2005
Instruction:		
Regular	\$900,717	\$379,055
Special	2,364,797	(751,453)
Support Services:		
Pupils	1,459,007	79,322
Instructional Staff	179,158	88,279
Board of Education	7,204	7,204
Administration	311,299	308,299
Fiscal	116,382	109,545
Operation and Maintenance of Plant	51,085	51,085
Pupil Transportation	39,039	39,039
Central	6,554	3,034
Non instructional Services	5,423	5,423
Debt Service	9,600	9,600
Total Disbursements	\$5,450,265	\$328,432

Over 94 percent of the Service Center's costs for providing services are supported by program receipts. The most significant program receipts are associated with regular and special instruction; along with pupil support services.

Instructional programs are charged to school districts and recorded by the Service Center as charges for services receipts for activities related to regular and special instruction. Therefore, the special instruction program appears to be over funded while the pupil and instructional staff support services programs seem to be somewhat under funded. Some disbursements within regular instruction and pupils support services are also charged to school districts with the receipts recorded by the Service Center as charges for services for activities related to special instruction.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

THE SERVICE CENTER'S FUNDS

The Service Center's governmental funds are accounted for using the cash basis of accounting. The fund balance in the General Fund increased by \$154,361, or 23 percent. The increase was from not employing a curriculum director and that a portion of the costs associated to the two community schools sponsored by the Service Center were reimbursed.

GENERAL FUND BUDGETING HIGHLIGHTS

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

During fiscal year 2005, the Service Center amended its General Fund budget as needed. Final budgeted receipts, in the amount of \$5,400,450, were only slightly above original budgeted receipts, in the amount of \$5,261,900, a change of less than 3 percent. Actual receipts were less than final budgeted receipts for charges for services. Due to a change in staff, the services rendered to the two community schools were not billed within the fiscal year.

Final disbursements were budgeted at \$5,380,471 while actual disbursements were \$4,979,338. The Service Center was able to reduce spending for all programs resulting in a 7 percent reduction from final budgeted amounts.

DEBT ADMINISTRATION

At June 30, 2005, the Service Center's only outstanding obligation consisted of a loan from Auglaize County, in the amount of \$43,200, used to construct a facility to house the Service Center. For further information regarding the Service Center's long-term obligations, refer to Note 11 to the basic financial statements.

CURRENT ISSUES

The Service Center decided to employ a treasurer rather than contracting for this service with another educational service center. During fiscal year 2006, the Opportunity for Youth director, a psychologist, and assistant treasurer have retired. These positions will not be replaced; thereby, reducing the costs of operations of the Service Center.

REQUEST FOR INFORMATION

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

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EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$825,492</u>
Net Assets	
Unrestricted	<u>825,492</u>
Total Net Assets	<u><u>\$825,492</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Cash Receipts			Net (Disbursement) Receipt and Change in Net Assets
Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$900,717	\$241,452	\$280,210	(\$379,055)
Special	2,364,797	2,287,311	828,939	751,453
Support Services:				
Pupils	1,459,007	1,224,567	155,118	(79,322)
Instructional Staff	179,158	87,954	2,925	(88,279)
Board of Education	7,204			(7,204)
Administration	311,299		3,000	(308,299)
Fiscal	116,382	6,837		(109,545)
Operation and Maintenance of Plant	51,085			(51,085)
Pupil Transportation	39,039			(39,039)
Central	6,554	520	3,000	(3,034)
Noninstructional Services	5,423			(5,423)
Debt Service				
Principal Retirement	9,600			(9,600)
Total Governmental Activities	\$5,450,265	\$3,848,641	\$1,273,192	(328,432)
 General Receipts				
Grants and Entitlements Not Restricted to Specific Programs				381,326
Interest				20,565
Miscellaneous				52,733
				454,624
Total General Receipts				454,624
Change in Net Assets				126,192
Net Assets at Beginning of Year				699,300
Net Assets at End of Year				\$825,492

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Other Governmental	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$825,501	(\$9)	\$825,492
Fund Balances			
Reserved for Encumbrances	24,967	45,851	70,818
Unreserved, Reported in			
General Fund	800,534		800,534
Special Revenue Funds (Deficit)		(45,860)	(45,860)
Total Fund Balances (Deficit)	\$825,501	(\$9)	\$825,492

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCES
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts			
Intergovernmental	\$1,130,204	\$459,859	\$1,590,063
Interest	20,565		20,565
Tuition and Fees	249,232		249,232
Charges for Services	3,655,998		3,655,998
Extracurricular Activities		7,281	7,281
Gifts and Donations		585	585
Miscellaneous	52,733		52,733
Total Receipts	<u>5,108,732</u>	<u>467,725</u>	<u>5,576,457</u>
Disbursements			
Current:			
Instruction:			
Regular	687,877	212,840	900,717
Special	2,245,528	119,269	2,364,797
Support Services:			
Pupils	1,410,707	48,300	1,459,007
Instructional Staff	127,897	51,261	179,158
Board of Education	7,204		7,204
Administration	269,619	41,680	311,299
Fiscal	116,382		116,382
Operation and Maintenance of Plant	44,761	6,324	51,085
Pupil Transportation	31,242	7,797	39,039
Central	3,554	3,000	6,554
Noninstructional Services		5,423	5,423
Debt Service:			
Principal Retirement	9,600		9,600
Total Disbursements	<u>4,954,371</u>	<u>495,894</u>	<u>5,450,265</u>
Changes in Fund Balances	154,361	(28,169)	126,192
Fund Balances at Beginning of Year	<u>671,140</u>	<u>28,160</u>	<u>699,300</u>
Fund Balances (Deficit) at End of Year	<u><u>\$825,501</u></u>	<u><u>(\$9)</u></u>	<u><u>\$825,492</u></u>

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND CASH BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$1,139,274	\$1,153,374	\$1,130,204	(\$23,170)
Interest	8,000	8,000	20,565	12,565
Tuition and Fees	256,600	274,600	249,232	(25,368)
Charges for Services	3,706,464	3,776,564	3,655,998	(120,566)
Miscellaneous	151,562	187,912	52,733	(135,179)
Total Receipts	<u>5,261,900</u>	<u>5,400,450</u>	<u>5,108,732</u>	<u>(291,718)</u>
Disbursements				
Current:				
Instruction:				
Regular	413,145	753,388	688,625	64,763
Special	2,620,335	2,408,088	2,249,856	158,232
Support Services:				
Pupils	1,504,324	1,493,737	1,411,135	82,602
Instructional Staff	178,404	139,741	130,366	9,375
Board of Education	18,088	19,188	7,304	11,884
Administration	317,435	324,242	269,929	54,313
Fiscal	105,807	132,307	127,051	5,256
Operation and Maintenance of Plant	50,526	56,027	47,336	8,691
Pupil Transportation	23,258	34,890	34,282	608
Central	4,943	9,263	3,854	5,409
Debt Service:				
Principal Retirement	9,600	9,600	9,600	
Total Disbursements	<u>5,245,865</u>	<u>5,380,471</u>	<u>4,979,338</u>	<u>401,133</u>
Excess of Receipts Over (Under) Disbursements	16,035	19,979	129,394	109,415
Other Financing Uses				
Transfers Out	(26,451)	(26,451)		26,451
Changes in Fund Balance	(10,416)	(6,472)	129,394	135,866
Fund Balance at Beginning of Year	608,879	608,879	608,879	
Prior Year Encumbrances Appropriated	62,261	62,261	62,261	
Fund Balance at End of Year	<u><u>\$660,724</u></u>	<u><u>\$664,668</u></u>	<u><u>\$800,534</u></u>	<u><u>\$135,866</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

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

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

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student-related activities.

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

The Service Center is associated with five jointly governed organizations and three insurance pools. These organizations are the West Central Ohio Regional Professional Development Center, West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Auglaize County Educational Academy, Auglaize County Special Needs School, Schools of Ohio Risk Sharing Authority, Mercer Auglaize School Employee Benefit Trust, and the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

B. Fund Accounting

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

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

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

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

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

D. Budgetary Process

There are no budgetary requirements for Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Service Center's Board budgets for resources estimated to be received during the fiscal year. The estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

The Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund, function, and object level for all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". During fiscal year 2005, the Service Center had no investments.

The Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$20,565, which included \$1,053 assigned from other Service Center funds.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Net Assets/Restricted Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include federal and state grants restricted to expenditure for specified purposes. At June 30, 2005, there were no net assets restricted by enabling legislation.

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

K. Fund Balance Reserves

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

L. Flow-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and city school districts. When the Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2005, this consisted of the Preschool Handicapped special revenue fund.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the Service Center changed its method of accounting for financial reporting from a basis of accounting formerly prescribed for school districts by the Auditor of State to a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

This basis of accounting is similar to the cash receipts and disbursements basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The Service Center also reports long-term investments as assets, valued at cost.

The financial statements now include government-wide financial statements presented on a cash basis and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for government programs reflects the governmental fund balances for governmental funds at June 30, 2004. There was no effect on beginning fund balances at July 1, 2004.

The Service Center has also implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *“Deposit and Investment Risk Disclosure”* and GASB Statement No. 46, *“Net Assets Restricted by Enabling Legislation”*.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the Service Center’s financial statements. GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

4. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

5. DEPOSITS AND INVESTMENTS

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

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

Interim monies held by the Service Center may be deposited or invested in the following securities:

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

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 Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Deposits – At fiscal year end, the carrying amount of the Service Center's deposits was \$825,492 and the bank balance was \$1,031,370. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$831,370 of the Service Center's bank balance of \$1,031,370 was exposed to custodial credit risk because it was uninsured and collateralized.

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

6. STATE FUNDING

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

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

The Service Center also receives funding from the State Department of Education, in the amount of \$37.00 multiplied by the average daily membership of the Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Service Center. This amount is paid from State resources.

The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Education Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Service Center.

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

7. RISK MANAGEMENT

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Service Center contracted for the following insurance coverage.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. RISK MANAGEMENT (Continued)

Coverage provided by Schools of Ohio Risk Sharing Authority is as follows:

General Liability	\$3,000,000
Automobile Liability	3,000,000

Coverage provided by Hartford Steam Boiler Inspection and Insurance Company is as follows:

Boiler	1,773,266
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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 2005, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

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

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Service Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$308,600, \$302,531, and \$321,690, respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$5,795 made by the Service Center and \$11,314 made by plan members.

B. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 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 Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$93,125, \$85,529, and \$75,739, respectively; 85 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

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, 2005, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount was \$24,184.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Service Center, the amount to fund health care benefits, including the surcharge, was \$17,621 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

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

11. LONG-TERM OBLIGATIONS

Changes in the Service Center's long-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Loans Payable	<u>\$ 52,800</u>	<u>\$ 0</u>	<u>\$ 9,600</u>	<u>\$ 43,200</u>

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Regional Professional Development Center

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

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

B. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from the Hardin County Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

C. Western Ohio Computer Organization

The Service Center is a participant in the Western Ohio Computer Organization (WOCO). WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter educational entities within each county plus a representative from the fiscal agent educational entity. During fiscal year 2005, the Service Center paid \$10,960 to WOCO for various services. Financial information can be obtained from the Shelby County Educational Service Center, 129 East Court Street, Sidney, Ohio 45365.

D. Auglaize County Educational Academy

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS (Continued)

E. Auglaize County Special Needs School

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

13. INSURANCE POOLS

A. Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and established agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

B. Mercer Auglaize School Employee Benefit Trust

The Service Center participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer Auglaize School Employee Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust. Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from JM Consulting, 3547 Beechway Boulevard, Toledo, Ohio, 43614.

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

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. CONTINGENCIES

A. Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2005.

B. Litigation

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



Auditor of State Betty Montgomery

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

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

To the Board of Education

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Auglaize County, (the Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated April 12, 2006, wherein, we noted the Service Center used a comprehensive basis of accounting other than generally accepted accounting principles for reporting. In addition, the School District implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Service Center's management dated April 12, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

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

Educational Service Center
Auglaize County
Independent Accountants' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Required By *Government Auditing Standards*

We intend this report solely for the information and use of the management and the Board of Education.
It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 12, 2006

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

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

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

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

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



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

EDUCATIONAL SERVICE CENTER

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
MAY 4, 2006**