



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

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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 Educational Service Center, Auglaize County, (the Center), as of and for the years ended June 30, 2004 and June 30, 2003. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

Ohio Administrative Code Section 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects the combined fund cash balances of the Educational Service Center, as of June 30, 2004 and June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

As described in Note 3, during the year ended June 30, 2003, the Center changed its method of accounting for financial reporting.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Educational Service Center
Auglaize County
Independent Accountants' Report
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This report is intended solely for the information and use of the finance/audit committee, management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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

February 22, 2005

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:					
Tuition	\$296,954				\$296,954
Intergovernmental	1,226,396	\$245,717			1,472,113
Earnings on Investments	8,953				8,953
Extracurricular Activities		3,866			3,866
Charges for Services	3,325,316				3,325,316
Miscellaneous Revenue	57,978			\$360	58,338
Total Cash Receipts	4,915,597	249,583		360	5,165,540
Cash Disbursements:					
Current:					
Instruction:					
Regular	403,338	69,242		1,213	473,793
Special	2,379,228	97,023			2,476,251
Supporting Services:					
Pupils	1,456,163	35,731			1,491,894
Instructional Staff	174,293	42,692			216,985
Board of Education	17,121				17,121
Administration	299,665				299,665
Fiscal Services	87,891	4,312			92,203
Operation and Maintenance	48,484				48,484
Pupil Transportation	21,546				21,546
Central Services	(500)	6,000			5,500
Debt Service	9,400				9,400
Total Cash Disbursements	4,896,629	255,000		1,213	5,152,842
Total Receipts Over/(Under) Disbursements	18,968	(5,417)		(853)	12,698
Other Financing Receipts/Disbursements					
Refund of Prior Year Expenditures	20,828				20,828
Transfers-In	727	4,305			5,032
Transfers-Out	(4,305)		(\$727)		(5,032)
Total Other Financing Receipts	17,250	4,305	(727)		20,828
Excess of Cash Receipts and Other Receipts Over/(Under) Cash Disbursements and Other Disbursements	36,218	(1,112)	(727)	(853)	33,526
Fund Cash Balances, July 1	634,920	27,332	727	2,793	665,772
Fund Cash Balances, June 30	\$671,138	\$26,220	\$0	\$1,940	\$699,298

The notes to the financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:			
General Fund	\$4,998,032	\$4,937,152	(\$60,880)
Special Revenue Funds	262,434	253,888	(8,546)
Fiduciary:			
Expendable Trust Funds	<u>300</u>	<u>360</u>	<u>60</u>
Total (Memorandum Only)	<u><u>\$5,260,766</u></u>	<u><u>\$5,191,400</u></u>	<u><u>(\$69,366)</u></u>

The notes to the financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total	Actual 2004 Disbursements	Encumbrances Outstanding At 6/30/04	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$15,482	\$5,230,342	\$5,245,824	\$4,900,934	\$62,261	\$4,963,195	\$282,629
Special Revenue Funds	16	313,927	313,943	255,000	13,092	268,092	45,851
Capital Project Funds		1,455	1,455	727		727	728
Fiduciary:							
Expendable Trust Funds		3,192	3,192	1,213		1,213	1,979
Total (Memorandum Only)	\$15,498	\$5,548,916	\$5,564,414	\$5,157,874	\$75,353	\$5,233,227	\$331,187

The notes to the financial statements are an integral part of this statement.

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**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Auglaize County Educational Service Center (the "Center") is located in Wapakoneta, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts; 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, forty-seven classified employees, and sixty certified employees who provide services to the local and city school districts.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that 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 organizations' 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. The Center currently has no component units.

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 Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 10 and 11 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Center chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for educational service centers and school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for educational service centers by the Auditor of State.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

General Fund - The general fund is the general operating fund of the Center. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

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

2. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust funds.

C. Budgetary Data

The Center adopts its budget 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 the actual beginning of the fiscal year fund balance. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. All funds are budgeted and appropriated.

1. Appropriations:

The annual appropriation resolution is enacted by the Governing Board of the Center at the fund and object level for the 0000 special cost center of expenditures for the General Fund. For all other special cost centers of the General Fund, and for all other funds, the resolution is enacted at the fund level. 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.

Budgetary controls implemented by the Center require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the levels of control established by the Board.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any revisions that alter the total of any fund appropriation, or alters the total fund/object/special cost center 0000 appropriations within the general fund, must be approved by the Governing Board of the Center. During the year, eight modifications to the temporary appropriation measure were enacted by the Board.

The budget figures which appear in the statements 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.

D. Cash and Investments

To improve cash management, all cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center accounting records.

Investments are stated at cost which approximates market value. The Center has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$8,953.

E. Unpaid Vacation and Sick Leave

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

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Pass-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. For fiscal year 2004, these funds were for the Title III LEP grant.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current four 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 may be invested in the following obligations.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys 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 or interest by the United States;
2. Bonds, notes debentures or any other obligations 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 that 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 that 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer 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 3, "*Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*".

Deposits: At June 30, 2004, the carrying amount of the Center's deposits was \$699,298 and the bank balance was \$827,221. Of the bank balance, \$200,000 was covered by federal depository insurance and \$627,221 was uninsured and uncollateralized. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Center did not have any investments at fiscal year end.

4. PRIMARY REVENUE SOURCES

There are two primary sources of operating revenue for Center. The first primary source for Center operating dollars comes from payments made directly to the Center by districts that have contracted with the Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. State Foundation Distributions - Amounts Paid by the State.

This section has four parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM as defined in Section 3317.11, R.C.) of the local districts within the limits of the Center's territory times \$37.00. The Center also receives a per pupil amount for the city school districts with which it has entered into contracts.

The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The final part of this section is the guaranteed amount paid to Centers serving less than 10,000 students or to a Center that otherwise would have experienced a reduction in State funding because a local district had changed status to a city district. The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid (intergovernmental).

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. PRIMARY REVENUE SOURCES (Continued)

B. State Foundation Distributions - Amounts Paid by the Locals

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts all reported as charges for services.

C. State Foundation Distributions - Amounts Paid under Contract by Locals

This section has only one part. It represents amounts due to the Center for services provided under contract with participating districts which the Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent charges for services.

5. RISK MANAGEMENT

A. Property and Liability

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 2004, the Center contracted for the following insurance coverages.

Coverage provided by Schools of Ohio Risk Sharing Authority:

Property and Contents (\$1,000 deductible)	\$1,871,363
Crime Coverage (\$1,000 deductible)	50,000
General Liability (Bodily Injury and Property Damage, Personal Injury/Advertising Liability, Products/Completed Operations)	
Per Occurrence	3,000,000
Aggregate	5,000,000
Fire Legal Liability (Per Occurrence)	500,000
Medical Payments	
Per Person	1,000
Per Accident	5,000
Error or Omissions (\$5,000 deductible)	
Per Occurrence/Aggregate	3,000,000
Business Auto (Liability)	
Per Occurrence/Aggregate	3,000,000
Uninsured Motorist	50,000
Automobile Physical Damage (\$1,000 deductible)	100,000

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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

5. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2004, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). 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. 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.

C. Schools of Ohio Risk Sharing Authority

The Center participates in the Schools of Ohio 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 11)

D. Mercer/Auglaize Employee Benefit Trust

The Center participates in the Mercer/Auglaize Employee Benefit Trust (Trust) (Note 11), 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.

6. PENSION PLANS

A. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all 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 50 and termination of employment.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. PENSION PLANS (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 DC Plan 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 were \$333,156, \$321,704, and \$214,925 respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. For fiscal year 2004, DC member contributions were \$4,953, DC employer contributions were \$5,201, CP member contributions were \$5,522, and CP employer contributions were \$0.

B. School Employees Retirement System

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 that includes financial statements and supplemental information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Center must contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Center's contribution funds pension obligations with the remainder used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations and for 2003, this portion was 8.17 percent. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$84,349, \$75,739, and \$55,848, respectively; 83 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. 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, 2004, two of the Board of Education members have elected Social Security. The Governing Board's liability is 6.2 percent of wages paid.

7. 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 non-certified 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$25,627 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$24,500. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$69,987.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for the determination of vacation and sick leave components are derived from negotiated agreements and State laws. Employees who work year round are entitled to vacation at the following rates: an employee with one to ten years service with the Board is entitled to two weeks vacation; an employee with ten to twenty years service with the Board is entitled to three weeks vacation; an employee with twenty or more years service with the Board is entitled to four weeks vacation. 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 180 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 through CoreSource. These same employees are entitled to vision care through the VSP Vision Plan. To be eligible for the above benefits, an employee must be paid an average of 32.5 hours per week during the nine month school year.

9. LONG-TERM OBLIGATIONS

The changes in the Center's long-term obligations during fiscal year 2004 were as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Notes Payable	\$62,200	\$0	\$9,400	\$52,800

During 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.

10. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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, 1211 West Lima Street, Suite A, 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.

11. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

11. 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. Schools of Ohio Risk Sharing Authority

The 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 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.

SORSA's business and affairs are conducted by a nine member board consisting of superintendents, treasurers, and business managers. Financial information can be obtained from SORSA, 8050 North High Street, Columbus, Ohio 43235-6483.

12. COMMUNITY SCHOOLS

The Center sponsored two charter schools during fiscal year 2004 which did not begin operations until fiscal year 2005. The expenditures for the start-up were initially expended from the general fund of the Center and were reimbursed back to the center during fiscal year 2004.

The two charter schools, Auglaize County Special Needs Community School and Auglaize County Education Academy Community School, have established separate reporting identification numbers.

The following is the initial starting grant funds received and expended that occurred during fiscal year 2004:

<u>Community School</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/04</u>
Special Needs Community School	\$50,000	\$49,940	\$60
Educational Academy Community School	50,000	49,940	60
	<u>\$100,000</u>	<u>\$99,880</u>	<u>\$120</u>

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

13. CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions which are 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 District at June 30, 2004.

B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:					
Tuition	\$240,599				\$240,599
Intergovernmental	1,369,141	\$189,503			1,558,644
Earnings on Investments	14,196				14,196
Extracurricular Activities		3,704			3,704
Charges for Services	3,062,650				3,062,650
Gifts and Donations	250				250
Miscellaneous Revenue	56,883			\$425	57,308
Total Cash Receipts	4,743,719	193,207		425	4,937,351
Cash Disbursements:					
Current:					
Instruction:					
Regular	323,055	73,387		1,042	397,484
Special	1,995,615	69,811			2,065,426
Supporting Services:					
Pupils	1,469,215				1,469,215
Instructional Staff	434,484	62,737			497,221
Board of Education	13,240				13,240
Administration	256,558	123			256,681
Fiscal Services	108,847	5,244			114,091
Operation and Maintenance	48,013				48,013
Pupil Transportation	28,060				28,060
Central Services	4,251	7,592	\$2,762		14,605
Capital Outlay			173,200		173,200
Debt Service	9,600				9,600
Total Cash Disbursements	4,690,938	218,894	175,962	1,042	5,086,836
Total Receipts Over/(Under) Disbursements	52,781	(25,687)	(175,962)	(617)	(149,485)
Other Financing Receipts/Disbursements					
Refund of Prior Year Receipts	1,080				1,080
Refund of Prior Year Expenditures	125				125
Transfers-In	2,400		158,200	1,350	161,950
Transfers-Out	(159,550)	(2,400)			(161,950)
Total Other Financing Receipts/Disbursements	(155,945)	(2,400)	158,200	1,350	1,205
Excess of Cash Receipts and Other Receipts Over/(Under) Cash Disbursements and Other Disbursements					
	(103,164)	(28,087)	(17,762)	733	(148,280)
Fund Cash Balances, July 1	738,084	55,419	18,489	2,060	814,052
Fund Cash Balances, June 30	<u>\$634,920</u>	<u>\$27,332</u>	<u>\$727</u>	<u>\$2,793</u>	<u>\$665,772</u>

The notes to the financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$5,091,985	\$4,747,324	(\$344,661)
Special Revenue Funds	197,807	193,207	(4,600)
Capital Project Funds	160,000	158,200	(1,800)
Fiduciary:			
Expendable Trust Funds	1,950	1,775	(175)
Total (Memorandum Only)	<u>\$5,451,742</u>	<u>\$5,100,506</u>	<u>(\$351,236)</u>

The notes to the financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding At 6/30/03	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$17,071	\$6,167,644	\$6,184,715	\$4,850,488	\$15,482	\$4,865,970	\$1,318,745
Special Revenue Funds	16,592	233,908	250,500	221,294	16	221,310	29,190
Capital Project Funds	2,762	173,927	176,689	175,962		175,962	727
Fiduciary:							
Nonexpendable Trust Funds		2,160	2,160	1,042		1,042	1,118
Total (Memorandum Only)	<u>\$36,425</u>	<u>\$6,577,639</u>	<u>\$6,614,064</u>	<u>\$5,248,786</u>	<u>\$15,498</u>	<u>\$5,264,284</u>	<u>\$1,349,780</u>

The notes to the financial statements are an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Auglaize County Educational Service Center (the "Center") is located in Wapakoneta, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Minster, New Bremen, New Knoxville, and Waynesfield-Goshen Local School Districts; 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-two classified employees, and sixty-two certified employees who provide services to the local and city school districts.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that 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 organizations' 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. The Center currently has no component units.

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 Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 11 and 12 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis Of Accounting

As required by Ohio Administrative Code Section 117-2-03 (B), the Center prepared and filed its annual financial report in accordance with generally accepted accounting principles. However, the Center chooses to prepare (for audit purposes) its financial statements on the basis of accounting formerly prescribed or permitted for educational service centers and school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted for educational service centers by the Auditor of State.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Fund Types

General Fund - The general fund is the general operating fund of the Center. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

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

2. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include expendable trust 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 legally adopts its budget 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 to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the 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 two 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. The State Department of Education reviews the budget and certifies to each local board of education, under the supervision of the Center, the amount from part (B) that is to be apportioned to their school district.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations:

The annual appropriation resolution is enacted by the Governing Board of the Center at the fund and object level for the 0000 special cost center of expenditures for the General Fund. For all other special cost centers of the General Fund, and for all other funds, the resolution is enacted at the fund level. 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.

Budgetary controls implemented by the Center require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the levels of control established by the Board.

Any revisions that alter the total of any fund appropriation, or alters the total fund/object/special cost center 0000 appropriations within the general fund, must be approved by the Governing Board of the Center. During the year, ten modifications to the temporary appropriation measure were enacted by the Board.

The budget figures which appear in the statements 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.

D. Cash and Investments

To improve cash management, all cash received by the Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center accounting records.

Investments are stated at cost which approximates market value. The Center has allocated interest according to Ohio statutes. Interest revenue credited to the General Fund during fiscal year 2003 was \$14,196.

E. Unpaid Vacation and Sick Leave

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

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

G. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. For fiscal year 2003, these funds included the Eisenhower Professional Development Grant, Title VI-R – Classroom Reduction, Entry Year Grant, and Title III LEP.

H. Total Columns On Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the Center changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for educational service centers and school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

This change had the following effect on fund balances as previously reported:

<u>Fund Type</u>	<u>Fund Balance June 30, 2002</u>	<u>Accrual Adjustment</u>	<u>Fund Reclass</u>	<u>Fund Balance July 1, 2002</u>
General	\$717,067	\$21,017		\$738,084
Special Revenue	32,720	24,759	(\$2,060)	55,419
Capital Projects	(53,672)	72,161		18,489
Expendable Trust			2,060	2,060
	<u>\$696,115</u>	<u>\$117,937</u>	<u>\$0</u>	<u>\$814,052</u>

4. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current four 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 may be invested in the following obligations.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys 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 or interest by the United States;
2. Bonds, notes debentures or any other obligations 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 that 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 that 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio)
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer 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 3, *"Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements"*.

Deposits: At June 30, 2004, the carrying amount of the Center's deposits was \$665,772 and the bank balance was \$803,571. Of the bank balance, \$200,000 was covered by federal depository insurance and \$603,571 was uninsured and uncollateralized. Although all statutory requirements for the deposit of public money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Center did not have any investments at fiscal year end.

5. PRIMARY REVENUE SOURCES

There are two primary sources of operating revenue for Center. The first primary source for Center operating dollars comes from payments made directly to the Center by districts that have contracted with the Center for services. These dollars are reported as charges for services. The second source is State foundation distributions. The Center settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. State Foundation Distributions - Amounts Paid by the State

This section has four parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the average daily membership (ADM as defined in Section 3317.11, R.C.) of the local districts within the limits of the Center's territory times \$37.00. The Center also receives a per pupil amount for the city school districts with which it has entered into contracts.

The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The final part of this section is the guaranteed amount paid to Centers serving less than 10,000 students or to an Center that otherwise would have experienced a reduction in State funding because a local district had changed status to a city district.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. PRIMARY REVENUE SOURCES (Continued)

The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid (intergovernmental).

B. State Foundation Distributions - Amounts Paid by the Locals

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts all reported as charges for services.

C. State Foundation Distributions - Amounts Paid under Contract by Locals

This section has only one part. It represents amounts due to the Center for services provided under contract with participating districts which the Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts also represent charges for services.

6. RISK MANAGEMENT

A. Property and Liability

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 2003, the Center contracted for the following insurance coverages.

Coverage provided by Schools of Ohio Risk Sharing Authority:

Property and Contents (\$1,000 deductible)	\$1,871,363
Crime Coverage (\$1,000 deductible)	50,000
General Liability (Bodily Injury and Property Damage, Personal Injury/Advertising Liability, Products/Completed Operations)	
Per Occurrence	3,000,000
Aggregate	5,000,000
Fire Legal Liability (Per Occurrence)	500,000
Medical Payments	
Per Person	1,000
Per Accident	5,000
Error or Omissions (\$5,000 deductible)	
Per Occurrence/Aggregate	3,000,000
Business Auto (Liability)	
Per Occurrence/Aggregate	3,000,000
Uninsured Motorist	50,000
Automobile Physical Damage (\$1,000 deductible)	100,000

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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2003, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). 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. 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.

C. Schools of Ohio Risk Sharing Authority

The Center participates in the School of Ohio 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 12)

D. Mercer/Auglaize Employee Benefit Trust

The Center participates in the Mercer/Auglaize Employee Benefit Trust (Trust) (Note 12), 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.

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

The DC 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. 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, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Center's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001, was \$321,704, \$214,925, and \$209,229, respectively; 86 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal year 2002 and 2001. For fiscal year 2003, DC member contributions were \$13, DC employer contributions were \$14, CP member contributions were \$7,890, and CP employer contributions were \$0.

B. School Employees Retirement System

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 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, 2003, 2002, and 2001, were \$75,739, \$55,848, and \$39,179, respectively.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. 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, 2003, two of the Board of Education members had elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. POST-EMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center, this amount equaled \$24,746 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2003, the balance in the Fund was \$2.8 billion. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$72,587.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for the determination of vacation and sick leave components are derived from negotiated agreements and State laws. Employees who work year round are entitled to vacation at the following rates: an employee with one to ten years service with the Board is entitled to two weeks vacation; an employee with ten to twenty years service with the Board is entitled to three weeks vacation; an employee with twenty or more years service with the Board is entitled to four weeks vacation. 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 180 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 through CoreSource. These same employees are entitled to vision care through the VSP Vision Plan. To be eligible for the above benefits, an employee must be paid an average of 32.5 hours per week during the nine month school year.

10. LONG-TERM OBLIGATIONS

The changes in the Center's long-term obligations during fiscal year 2004 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Notes Payable	<u>\$71,800</u>	<u>\$0</u>	<u>\$9,600</u>	<u>\$62,200</u>

During 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 a period of ten years. The advance is interest free.

11. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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, 1211 West Lima Street, Suite A, 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.

12. 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.

**EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. 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. Schools of Ohio Risk Sharing Authority

The 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 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.

SORSA's business and affairs are conducted by a nine member board consisting of superintendents, treasurers, and business managers. Financial information can be obtained from SORSA, 8050 North High Street, Columbus, Ohio 43235-4683.

13. CONTINGENCIES

A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions which are 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 District at June 30, 2003.

B. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 year ended June 30, 2004 and June 30, 2003 and have issued our report thereon dated February 22, 2005, wherein we noted that the Center implemented the basis of accounting previously prescribed by the Auditor of State for financial reporting other than generally accepted accounting principles which is now required. 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 *Governmental 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially effect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Center in a separate letter dated February 22, 2005.

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 operation that we consider to be material weaknesses.

Educational Service Center
Auglaize County
Independent Accountants' Report On Compliance And On
Internal Control Required By *Government Auditing Standards*
Page 2

However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated February 22, 2005.

This report is intended for the information and use of the finance/audit committee, management, the Board of Education, and is not intended to be and should not be used by 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

February 22, 2005

EDUCATIONAL SERVICE CENTER
AUGLAIZE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004 AND 2003

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

FINDING NUMBER 2004-001

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

Ohio Adm. Code Section 117-2-03 (B) requires the Educational Service Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, for the fiscal year 2004, the Educational Service Center prepared 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 Educational Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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



**Auditor of State
Betty Montgomery**

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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
MARCH 29, 2005**