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AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Western Buckeye Educational Service Center
Paulding County
202 North Cherry Street
P.O. Box 176
Paulding, Ohio 45879-0176

To the Governing Board:

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

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Western Buckeye Educational Service Center, Paulding County, as of June 30, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Educational Service Center, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large loop at the end.

Jim Petro
Auditor of State

December 23, 2002

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**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

	Governmental Fund Types	
	General	Special Revenue
Assets and Other Debits:		
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$1,078,569	\$283,300
Receivables:		
Intergovernmental	196,636	2,880
Accrued Interest	15,379	
Prepaid Items	25,149	
Fixed Assets		
<u>Other Debits:</u>		
Amount to be Provided from General Governmental Resources		
Total Assets and Other Debits	\$1,315,733	\$286,180
Liabilities, Fund Equity, and Other Credits:		
<u>Liabilities:</u>		
Accounts Payable	\$7,899	\$3,847
Accrued Wages and Benefits	258,662	48,456
Compensated Absences Payable	13,873	606
Intergovernmental Payable	7,501	1,349
Deferred Revenue	25,378	2,880
Undistributed Assets		
Total Liabilities	313,313	57,138
<u>Fund Equity and Other Credits:</u>		
Investment in General Fixed Assets		
Fund Balance:		
Reserved for Encumbrances	7,255	9,604
Reserved for External Pool Participants		
Unreserved	995,165	219,438
Total Fund Equity and Other Credits	1,002,420	229,042
Total Liabilities, Fund Equity and Other Credits	\$1,315,733	\$286,180

See Accompanying Notes to the General-Purpose Financial Statements

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
\$1,652,649			\$3,014,518
15,585			199,516
			30,964
	\$235,314		25,149
			235,314
		\$186,569	186,569
\$1,668,234	\$235,314	\$186,569	\$3,692,030
			\$11,746
			307,118
\$17,661		\$173,783	188,262
		12,786	39,297
3,723			28,258
			3,723
21,384		186,569	578,404
	\$235,314		235,314
1,646,850			16,859
			1,646,850
			1,214,603
1,646,850	235,314		3,113,626
\$1,668,234	\$235,314	\$186,569	\$3,692,030

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Revenues:			
Intergovernmental	\$848,007	\$590,478	\$1,438,485
Interest	46,145		46,145
Tuition and Fees	2,298,098		2,298,098
Customer Services	167,618		167,618
Gifts and Donations	140	4,000	4,140
Miscellaneous	19,678		19,678
	3,379,686	594,478	3,974,164
Expenditures:			
Current:			
Instruction:			
Regular	99,617	114,424	214,041
Special	1,422,171	7,785	1,429,956
Support Services:			
Pupils	696,116		696,116
Instructional Staff	540,489	4,000	544,489
Board of Education	67,162		67,162
Administration	202,309	9,000	211,309
Fiscal	68,323		68,323
Operation and Maintenance of Plant	20,643		20,643
Central	1,693	18,320	20,013
Non-Instructional Services	3,100		3,100
Intergovernmental		248,437	248,437
	3,121,623	401,966	3,523,589
Excess of Revenues Over Expenditures	258,063	192,512	450,575
Fund Balances at Beginning of Year	744,357	36,530	780,887
Fund Balances at End of Year	\$1,002,420	\$229,042	\$1,231,462

See Accompanying Notes to the General-Purpose Financial Statements

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$781,841	\$844,535	\$62,694
Interest	48,000	47,589	(411)
Tuition and Fees	2,259,509	2,273,144	13,635
Customer Services	226,340	130,287	(96,053)
Gifts and Donations	180	140	(40)
Miscellaneous	15,098	15,330	232
Total Revenues	3,330,968	3,311,025	(19,943)
Expenditures:			
Current:			
Instruction:			
Regular	266,901	96,834	170,067
Special	1,560,789	1,396,535	164,254
Support Services:			
Pupils	811,018	710,079	100,939
Instructional Staff	572,721	535,047	37,674
Board of Education	82,984	72,746	10,238
Administration	240,733	206,340	34,393
Fiscal	78,392	68,661	9,731
Operation and Maintenance of Plant	23,600	20,678	2,922
Central	42,000	1,693	40,307
Non-Instructional Services	5,637	3,100	2,537
Total Expenditures	3,684,775	3,111,713	573,062
Excess of Revenues Over (Under) Expenditures	<u>(353,807)</u>	<u>199,312</u>	<u>553,119</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures		4,348	4,348
Other Financing Uses	(496,655)		496,655
Total Other Financing Sources (Uses)	<u>(496,655)</u>	<u>4,348</u>	<u>501,003</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(850,462)	203,660	1,054,122
Fund Balances at Beginning of Year	850,462	850,462	
Prior Year Encumbrances Appropriated	9,292	9,292	
Fund Balances (Deficit) at End of Year	<u>\$9,292</u>	<u>\$1,063,414</u>	<u>\$1,054,122</u>

(Continued)

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

	<u>Special Revenue Funds</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Intergovernmental	\$1,558,094	\$592,916	(\$965,178)
Interest			
Tuition and Fees			
Customer Services			
Gifts and Donations		4,000	4,000
Miscellaneous			
Total Revenues	<u>1,558,094</u>	<u>596,916</u>	<u>(961,178)</u>
Expenditures:			
Current:			
Instruction:			
Regular	134,576	113,528	21,048
Special	393,341	201,307	192,034
Support Services:			
Pupils			
Instructional Staff	71,400	26,985	44,415
Board of Education			
Administration	49,041	36,823	12,218
Fiscal	1,500	1,500	
Operation and Maintenance of Plant			
Central	18,320	21,149	(2,829)
Non-Instructional Services			
Total Expenditures	<u>668,178</u>	<u>401,292</u>	<u>266,886</u>
Excess of Revenues Over (Under) Expenditures	<u>889,916</u>	<u>195,624</u>	<u>(694,292)</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures			
Other Financing Uses			
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	889,916	195,624	(694,292)
Fund Balances at Beginning of Year	71,263	71,263	
Prior Year Encumbrances Appropriated	<u>2,962</u>	<u>2,962</u>	
Fund Balances (Deficit) at End of Year	<u><u>\$964,141</u></u>	<u><u>\$269,849</u></u>	<u><u>(\$694,292)</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$2,339,935	\$1,437,451	(\$902,484)
48,000	47,589	(411)
2,259,509	2,273,144	13,635
226,340	130,287	(96,053)
180	4,140	3,960
15,098	15,330	232
4,889,062	3,907,941	(981,121)
401,477	210,362	191,115
1,954,130	1,597,842	356,288
811,018	710,079	100,939
644,121	562,032	82,089
82,984	72,746	10,238
289,774	243,163	46,611
79,892	70,161	9,731
23,600	20,678	2,922
60,320	22,842	37,478
5,637	3,100	2,537
4,352,953	3,513,005	839,948
536,109	394,936	(141,173)
(496,655)	4,348	4,348
(496,655)	4,348	501,003
39,454	399,284	359,830
921,725	921,725	
12,254	12,254	
\$973,433	\$1,333,263	\$359,830

WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY

Statement of Changes in Net Assets
Fiduciary Fund Type
For the Fiscal Year Ended June 30, 2002

	<u>Investment Trust</u>
Revenues:	
Interest	\$46,493
Expenses:	
Operating Expenses	
Net Increase in Assets Resulting from Operations	46,493
Distributions to Participants	(50,631)
Capital Transactions	<u>734,621</u>
Total Increase in Net Assets	730,483
Net Assets at Beginning of Year	<u>916,367</u>
Net Assets at End of Year	<u><u>\$1,646,850</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

NOTE 1 - REPORTING ENTITY

Western Buckeye Educational Service Center (the Educational Service Center) is located in Paulding, Ohio, the county seat of Paulding County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Antwerp, Crestview, Lincolnview, and Wayne Trace Local School Districts, the Paulding Exempted Village School District, and the Van Wert City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of one member elected from each of the four local school districts and one member elected at-large for staggered four year terms. The Educational Service Center has eleven administrators, thirty-five classified employees, and forty-three certified teaching personnel who provide services to the local, exempted village, and city school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the Western Buckeye Educational Service Center.

The Educational Service Center participates in two jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Northwestern Ohio Educational Research Council, Inc., NOACSC Workers' Compensation Group Rating Plan, and the Van Wert Area Schools Insurance Group. Information about these organizations is presented in Notes 15 and 16 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

A. Basis of Presentation - Fund Accounting

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

Governmental Fund Types:

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

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

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

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. For the Educational Service Center, this consists of an investment trust fund and an agency fund. The investment trust fund is accounted for on the accrual basis. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Account Groups:

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

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

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

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

B. Measurement Focus and Basis of Accounting

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

The investment trust fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statement of this fund presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental fund types and agency fund. The full accrual basis of accounting is followed for the investment trust fund.

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

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

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

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are also recorded as deferred revenue.

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

The budgetary process entails preparation of budgetary documents within an established timetable.

The Educational Service Center adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. For fiscal year 2002, the investment trust fund was classified as an agency fund for budgetary purposes. For budgeted funds, the budget includes the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

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

Appropriations:

The annual appropriation resolution is enacted by the Educational Service Center at the fund and function level of expenditures for the General Fund and the fund level of expenditures for all other funds. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, is limited by the estimated resources, and the total of expenditures and encumbrances is controlled so as not to exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within the General Fund are approved by the Educational Service Center's Board. Appropriation allocations at the object level within the General Fund or at the function and object level within all other funds are made by the Educational Service Center Treasurer.

The Educational Service Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear on the statement of budgetary comparisons represent the final appropriation amounts passed during the fiscal year. Formal budgetary integration is employed as a management control device during the year for all funds, except investment trust and agency funds.

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2002, investments were limited to nonnegotiable certificates of deposit and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2002.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 was \$46,145, which included \$4,326 assigned from other Educational Service Center funds.

For presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

E. Prepaid Items

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

F. Fixed Assets and Depreciation

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

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

a capitalization threshold of five hundred dollars, except for improvements which have a capitalization threshold of fifteen thousand dollars.

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

G. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees who are at least forty-five years of age and have five or more years of service with the Educational Service Center.

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

H. Accrued Liabilities and Long-Term Obligations

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

I. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and for external pool participants, which represents net assets held in trust for the external portion of the investment pool.

J. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

expenditures in a special revenue fund. For fiscal year 2002, these funds included Title VI-B and Preschool special revenue funds.

K. Interfund Transactions

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

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

L. Estimates

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

M. Total Columns on General Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY

At June 30, 2002, the Preschool special revenue fund had a deficit fund balance of \$1,704. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses All Governmental Fund Types		
	General	Special Revenue
GAAP Basis	\$258,063	\$192,512
<u>Increase (Decrease) Due to:</u>		
Revenue Accruals:		
Accrued FY 2001, Received in Cash FY 2002	122,324	2,438
Accrued FY 2002, Not Yet Received in Cash	(186,637)	
Expenditure Accruals:		
Accrued FY 2001, Paid in Cash FY 2002	(253,267)	(41,493)
Accrued FY 2002, Not Yet Paid in Cash	287,935	54,258
Prepaid Items	(9,603)	1,360
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(15,155)	(13,451)
Budget Basis	\$203,660	\$195,624

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
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**Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

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

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

At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$2,412,385 and the bank balance was \$2,608,579. Of the bank balance, \$500,000 was covered by federal depository insurance and \$2,108,579 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

The Educational Service Center's investments are categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the Educational Service Center or the Educational Service Center's agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2002, the fair value of funds on deposit with STAR Ohio was \$602,133.

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,014,518	
STAR Ohio	(602,133)	\$602,133
GASB Statement No. 3	\$2,412,385	\$602,133

NOTE 6 - INVESTMENT POOL

The Educational Service Center serves as fiscal agent for the Northwest Ohio Area Computer Services Cooperative (NOACSC), a legally separate entity. The Educational Service Center pools the monies of this entity with the Educational Service Center's for investment purposes. The Educational Service Center cannot allocate its investments between the internal and external investment pools. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The carrying amounts and fair value for both the internal and external portions of the investment pool are disclosed in Note 5 - Deposits and Investments.

Condensed financial information for the investment pool follows:

Statement of Net Assets	
June 30, 2002	
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,014,518
Accrued Interest Receivable	30,964
Total Assets	\$3,045,482

(Continued)

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
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**Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

<u>Net Assets Held in Trust for Pool Participants:</u>	
Internal Portion	\$1,398,632
External Portion	<u>1,646,850</u>
Total Net Assets Held in Trust for Pool Participants	<u><u>\$3,045,482</u></u>

NOTE 7 - STATE FUNDING

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

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

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2002, consisted of intergovernmental and accrued interest receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund	
Excess Cost	\$115,341
Customer Services	41,177
Community Alternative Funding	<u>40,118</u>
Total General Fund	196,636
Special Revenue Fund	
Title VI-B	<u>2,880</u>
Total Intergovernmental Receivables	<u><u>\$199,516</u></u>

NOTE 9 - FIXED ASSETS

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

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
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**Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/02</u>
Land	\$5,400			\$5,400
Building and Improvements	54,600			54,600
Furniture, Fixtures and Equipment	171,491	\$14,640	\$10,817	175,314
Total	<u>\$231,491</u>	<u>\$14,640</u>	<u>\$10,817</u>	<u>\$235,314</u>

NOTE 10 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by Cincinnati Insurance Company

Commercial Property	\$90,000
Office Equipment - ACE	50,000
Office Equipment	110,000
Commercial General Liability	1,000,000

Coverage provided by Central Mutual Insurance Company

Commercial Excess - Umbrella	\$2,000,000
Business Owners Property	
Per Occurrence	2,000,000
Total per Year	4,000,000

Coverage provided by Foltz Insurance Company

General Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000
Auto - Non-Owners Liability	1,000,000

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

For fiscal year 2002, the Educational Service Center participated in the NOACSC Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

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

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Acordia Workers' Compensation Services provides administrative, cost control and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

The Educational Service Center participates in the Van Wert Area Schools Insurance Group (VWASIG). VWASIG is a public entity shared risk pool consisting of five members. The Educational Service Center pays monthly premiums to VWASIG for employee medical, dental, and life insurance benefits. VWASIG is responsible for the management and operation of the program. Upon withdrawal from VWASIG, a member is responsible for the payment of all VWASIG liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$179,236, \$161,788, and \$97,232, respectively; 100 percent has been contributed for all three fiscal years.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002,

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

2001, and 2000, were \$79,216, \$54,105, and \$63,723, respectively; 100 percent has been contributed for all three fiscal years.

C. Social Security System

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

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums.

Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount was \$84,901.

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

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

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$136,688 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934, and the target level was \$242.2 million. At June 30, 2001,

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

SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees and 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 one hundred eighty days. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of thirty days for employees with less than ten years of service with the Educational Service Center, and a maximum of fifty days for employees with ten or more years of service.

Upon the merger of Paulding and Van Wert Educational Service Centers in fiscal year 1999, certain employees accumulated sick leave balances exceeded one hundred eighty days. For these employees, the maximum sick leave accrual is being maintained at their balance upon the merger.

B. Health Care Benefits

The Educational Service Center participates in the Van Wert Area Schools Insurance Group (VWASIG) for all employee health care benefits. Through VWASIG, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2001 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Compensated Absences Payable	\$129,060	\$44,723		\$173,783
Intergovernmental Payable	12,197	12,786	\$12,197	12,786
Total	\$141,257	\$57,509	\$12,197	\$186,569

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

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
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**Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002
(Continued)**

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member school districts within each county. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Michael Wildermuth, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., Box 456, Ashland, Ohio 44805.

NOTE 16 - INSURANCE POOLS

A. NOACSC Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool.

The Safety Coordinator, Robert Lotz of NOACSC, or his designee serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Van Wert Area Schools Insurance Group

The Van Wert Area Schools Insurance Group (VWASIG) is a public entity shared risk pool consisting of five members. VWASIG is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each member appoints a representative to the Board of Trustees. The Board of Trustees is

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

the legislative and managerial body of VWASIG. Financial information can be obtained from the Van Wert City School District, who serves as fiscal agent, 641 North Jefferson Street, Van Wert, Ohio 45891.

NOTE 17 - 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.

NOTE 18 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Educational Service Center at June 30, 2002.

B. Litigation

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

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**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Program Title				
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<u>Special Education Cluster:</u>				
Special Education - Grants to States				
	6B-SF-01P	84.027		\$21,234
	6B-SF-02P	84.027	\$180,419	157,280
	6B-S3-02P	84.027	116,566	14,855
	6B-EC-01P	84.027	4,032	4,032
Total Special Education - Grants to States			301,017	197,401
Special Education - Preschool Grant				
	PG-S1-01P	84.173	2,438	5,006
	PG-S1-02P	84.173	38,479	33,820
Total Special Education - Preschool Grant			40,917	38,826
Total Department of Education - Special Education Cluster			341,934	236,227
U.S. DEPARTMENT OF HUMAN SERVICES				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (CAFS)		93.778	86,880	86,880
Totals			\$428,814	\$323,107

The accompanying notes are an integral part of this schedule.

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Educational Service Center contributes non-Federal funds (matching funds) to support the Federally-funded programs. The Educational Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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

Western Buckeye Educational Service Center
Paulding County
202 North Cherry Street
P.O. Box 176
Paulding, Ohio 45879-0176

To the Governing Board:

We have audited the financial statements of Western Buckeye Educational Service Center (the Educational Service Center) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10263-001.

A material weakness is a condition in which the design or operation of one of 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated December 23, 2002.

This report is intended for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 23, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Western Buckeye Educational Service Center
Paulding County
202 North Cherry Street
P.O. Box 176
Paulding, Ohio 45879-0176

To the Governing Board:

Compliance

We have audited the compliance of Western Buckeye Educational Service Center (the Education Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Educational Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on the Educational Service Centers compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Educational Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Educational Service Center's compliance with those requirements.

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Educational Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Educational Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Governing Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 23, 2002

**WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER
PAULDING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	<u>Special Education Cluster:</u> Grants to States CFDA #84.027 Preschool Grants CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2002-10263-001

Reportable Condition - Confirmation of Receipt of Goods/Services

Sixteen percent of the expenditures tested did not include documentation that the Educational Service Center personnel receiving the goods and/or service verified the receipt of goods or services. This weakness limits the Educational Service Center's control over disbursements, could allow payments to be made for goods and services not received, and increases the possibility of errors or irregularities occurring and not being detected in the normal course of operations. We recommend no payments be made until receipt of the goods and/or service has been verified.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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WESTERN BUCKEYE EDUCATIONAL SERVICE CENTER

PAULDING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 28, 2003**