



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types, Account Groups – June 30, 2002	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All Governmental Fund Types – For the Year Ended June 30, 2002	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Budget Basis) – All Governmental Fund Types – For the Year Ended June 30, 2002	6
Notes to the General Purpose Financial Statements	9
Schedule of Federal Awards Expenditures – For the Year Ended June 30, 2002	27
Notes to Schedule of Federal Awards Expenditures	28
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29
Report of Independent Accountants on Compliance with Requirements Applicable to its Major Federal Program and Internal Control Required by <i>Government Auditing Standards</i>	31
Schedule of Findings.....	33
Corrective Action Plan	36
Schedule of Prior Audit Findings and Question Costs.....	37

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

We have audited the accompanying general-purpose financial statements of Educational Service Center, Darke County (the 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 Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Center, 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 5, 2002 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.

We performed our audit to form an opinion on the general-purpose financial statements of the Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for 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. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it 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".

Jim Petro
Auditor of State

December 5, 2002

This page intentionally left blank.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types			Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Fund Type	General	General	
				Agency	Fixed Assets	Long-Term Obligations	
Assets and Other Debits							
Assets:							
Equity in Pooled Cash and Cash Equivalents	\$32,104	\$254,892	\$92,949	\$13,364			\$393,309
Receivables:							
Accounts	110,622						110,622
Intergovernmental	11,680	86,630					98,310
Interfund Receivable	658						658
Due From Other Funds	217						217
Prepaid Items	1,351						1,351
Fixed Assets					876,605		876,605
Other Debits:							
Amount to be Provided for Retirement of General Long-Term Obligations						140,394	140,394
Total Assets and Other Debits	156,632	341,522	92,949	13,364	876,605	140,394	1,621,466
Liabilities, Fund Equity and Other Credits							
Liabilities:							
Accounts Payable	13,693	19,613	1,060				\$34,366
Accrued Wages and Benefits Payable	103,357	52,349					155,706
Intergovernmental Payable	20,367	9,236				4,263	33,866
Interfund Payable		658					658
Due to Other Funds		217					217
Deferred Revenue	69,625	62,452					132,077
Compensated Absences Payable	7,317					136,131	143,448
Undistributed Monies				13,364			13,364
Total Liabilities	214,359	144,525	1,060	13,364		140,394	513,702
Fund Equity and Other Credits:							
Investment in General Fixed Assets					876,605		876,605
Fund Balance:							
Reserved for Encumbrances	37,741	29,621					67,362
Unreserved, Undesignated (Deficit)	(95,468)	167,376	91,889				163,797
Total Fund Equity (Deficit) and Other Credits	(57,727)	196,997	91,889		876,605		1,107,764
Total Liabilities, Fund Equity and Other Credits	\$156,632	\$341,522	\$92,949	\$13,364	\$876,605	\$140,394	\$1,621,466

See Accompanying Notes to the General Purpose Financial Statements.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

	<u>Governmental Fund Types</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Revenues:				
Intergovernmental	\$1,499,176	\$902,454	\$3,297	\$2,404,927
Interest	12,713			12,713
Tuition and Fees		25,753		25,753
Gifts and Donations		3,000		3,000
Charges for Services	401,659			401,659
Miscellaneous	13,941			13,941
Total Revenues	<u>1,927,489</u>	<u>931,207</u>	<u>3,297</u>	<u>2,861,993</u>
Expenditures:				
Current:				
Instruction:				
Regular		48,889		48,889
Special	529,030	142,841		671,871
Vocational		146		146
Support Services:				
Pupils	441,917	38,028		479,945
Instructional Staff	683,572	174,032		857,604
Board of Education	34,816			34,816
Administration	158,360	859		159,219
Fiscal	124,144	128,627		252,771
Operation and Maintenance of Plant	25,812			25,812
Pupil Transportation	2,220			2,220
Central	13,692			13,692
Capital Outlay			10,075	10,075
Intergovernmental		458,555		458,555
Total Expenditures	<u>2,013,563</u>	<u>991,977</u>	<u>10,075</u>	<u>3,015,615</u>
Revenues Under Expenditures	<u>(86,074)</u>	<u>(60,770)</u>	<u>(6,778)</u>	<u>(153,622)</u>
Other Financing Sources (Uses):				
Operating Transfers In	38,069			38,069
Operating Transfers Out			(38,069)	(38,069)
Total Other Financing Sources (Uses)	<u>38,069</u>		<u>(38,069)</u>	
Excess of Revenues and Other Financing Sources Under Expenditures And Other Financing Uses	(48,005)	(60,770)	(44,847)	(153,622)
Fund Balances (Deficit) at Beginning of Year	<u>(9,722)</u>	<u>257,767</u>	<u>136,736</u>	<u>384,781</u>
Fund Balances (Deficit) at End of Year	<u>(\$57,727)</u>	<u>\$196,997</u>	<u>\$91,889</u>	<u>\$231,159</u>

This page intentionally left blank.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

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

	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Intergovernmental	\$1,104,355	\$1,517,878	\$413,523
Interest	35,000	15,091	(19,909)
Tuition and Fees			
Gifts and Donations			
Charges for Services	1,014,355	405,445	(608,910)
Miscellaneous	12,448	12,448	
Total Revenues	<u>2,166,158</u>	<u>1,950,862</u>	<u>(215,296)</u>
Expenditures:			
Current:			
Instruction:			
Regular			
Special	681,763	609,828	71,935
Vocational			
Support Services:			
Pupils	608,498	508,997	99,501
Instructional Staff	892,323	798,817	93,506
Board of Education	52,315	35,641	16,674
Administration	194,449	185,169	9,280
Fiscal	129,016	123,403	5,613
Operation and Maintenance of Plant	50,049	34,155	15,894
Pupil Transportation	5,000	2,220	2,780
Central	22,000	13,674	8,326
Capital Outlay			
Total Expenditures	<u>2,635,413</u>	<u>2,311,904</u>	<u>323,509</u>
Excess of Revenues Under Expenditures	<u>(469,255)</u>	<u>(361,042)</u>	<u>108,213</u>
Other Financing Sources (Uses):			
Refund of Prior Year Expenditures	2,500	1,276	(1,224)
Operating Transfers - In		38,069	38,069
Operating Transfers - Out	(24,188)		24,188
Advances - In		22,875	22,875
Advances - Out	(8,500)	(659)	7,841
Total Other Financing Sources (Uses)	<u>(30,188)</u>	<u>61,561</u>	<u>91,749</u>
Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	<u>(499,443)</u>	<u>(299,481)</u>	<u>199,962</u>
Fund Balances at Beginning of Year	227,578	227,578	
Prior Year Encumbrances Appropriated	57,929	57,929	
Fund Balances (Deficit) at End of Year	<u>(\$213,936)</u>	<u>(\$13,974)</u>	<u>\$199,962</u>

See Accompanying Notes to the General Purpose Financial Statements.

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$778,526	\$972,524	\$193,998		\$3,297	\$3,297
35,000	25,927 3,000	(9,073) 3,000			
<u>813,526</u>	<u>1,001,451</u>	<u>187,925</u>		<u>3,297</u>	<u>3,297</u>
104,869	63,043	41,826			
307,828	288,986	18,842			
146	146				
337,379	296,273	41,106			
393,222	313,195	80,027	11,064		11,064
1,603	1,603				
150,000	128,627	21,373			
			49,650	10,075	39,575
<u>1,295,047</u>	<u>1,091,873</u>	<u>203,174</u>	<u>60,714</u>	<u>10,075</u>	<u>50,639</u>
(481,521)	(90,422)	391,099	(60,714)	(6,778)	53,936
			(38,069)	(38,069)	
	659	659			
(22,875)	(22,875)				
(22,875)	(22,216)	659	(38,069)	(38,069)	
(504,396)	(112,638)	391,758	(98,783)	(44,847)	53,936
220,762	220,762		136,736	136,736	
109,098	109,098				
<u>(\$174,536)</u>	<u>\$217,222</u>	<u>\$391,758</u>	<u>\$37,953</u>	<u>\$91,889</u>	<u>\$53,936</u>

This page intentionally left blank.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Darke County Educational Service Center (the "Educational Service Center") is located in Greenville, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Mississinawa Valley, Ansonia, Arcanum-Butler, Franklin Monroe, and Tri-Village Local School Districts, the Versailles Exempted Village School District, and the Greenville City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 16 support staff employees, 30 certified teaching personnel and 5 administrative employees that provide services to the local, exempted village and city school districts.

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

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 organizations' 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. The Educational Service Center currently has no component units.

The following entity which performs activities within the Educational Service Center's boundaries for the benefit of its residents is excluded from the accompanying financial statements because the Educational Service Center is not financially accountable for this entity nor is it fiscally dependent on the Educational Service Center.

City of Greenville - The city government of Greenville is a separate body politic and corporate. A mayor and council are elected independent of any Educational Service Center relationships and administer the provision of traditional city services. Council acts as the taxing and budgeting authority for these city services.

The Educational Service Center participates in three jointly governed organizations and two insurance purchasing pools. These organizations are discussed in Note 14 to the general purpose financial statements. These organizations are:

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY
(Continued)**

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Miami Valley Career Technology Center

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group
Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

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. The more significant of the Educational Service Center's accounting policies are described below.

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 expendable available 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.

1. 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.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure 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 Type:

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. The Educational Service Center's only fiduciary fund is an agency fund. The Educational Service Center's agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

3. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term obligations 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.

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental and fiduciary funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place, provided the resources are available. Available means that 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 year-end.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On a modified accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied, provided the resources are available. Eligibility requirements include timing requirements, which specify the 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.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, excess costs, and interest.

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

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

C. Budgetary Data

The Educational Service 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 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 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, other than the agency fund, are budgeted and appropriated.

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 expenses 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 Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations:

The annual appropriation resolution is enacted by the Governing Board of the Educational Service Center at the fund, function, and object level of expenditures. 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. Budgetary controls 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 alter total function appropriations within a fund, or alter total object appropriations within functions, must be approved by the Governing Board of the Educational Service Center.

The Governing Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. During the year, fifteen supplemental appropriations were enacted; however, none of these amendments were significant.

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, other than the agency fund.

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

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 the Educational Service Center's 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, the Educational Service Center did not have any investments.

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 amounted to \$12,713, which includes \$12,360 assigned from other Educational Service Center funds.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

E. Interfund Assets and Liabilities

Short-term interfund loans are classified as "interfund receivables" and "interfund payables." Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet.

F. 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.

G. 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 retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not have any infrastructure.

Improvements are capitalized. 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. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated.

H. 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 leave time when earned for all employees with more than one year of service.

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 after fifteen years of service.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

I. 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 a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available financial resources.

J. 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.

K. 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. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2002, these funds included the Title II, Title VI-B, and Preschool special revenue funds.

L. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific purpose or which 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 are established for encumbrances.

M. Estimates

The preparation of the 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.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Total Columns on General Purpose Financial Statements

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

3. ACCOUNTABILITY

The following funds had deficit fund balances at June 30, 2002:

<u>Fund Type/Fund</u>	<u>Deficit</u>
General Fund	\$57,727
Special Revenue Funds:	
Preschool	126
Entry Year Grant	7,300
Title VI-B Early Childhood	3,180

The deficit fund balances are due to adjustments for accrued liabilities. The deficit in the general fund will be eliminated by reducing expenditures and increasing service charges to clients. The general fund regularly provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed, rather than when accruals occur.

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).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses All Governmental Fund Types			
	General	Special Revenue	Capital Projects
GAAP Basis	(\$48,005)	(\$60,770)	(\$44,847)
Revenue Accruals	25,101	70,244	0
Expenditure Accruals	(252,406)	(62,226)	1,060
Unrecorded Cash	(452)	0	0
Encumbrances	(45,626)	(37,670)	(1,060)
Prepaid Items	(309)	0	0
Advances	22,216	(22,216)	0
Budget Basis	(\$299,481)	(\$112,638)	(\$44,847)

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

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

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

1. United States Treasury Notes, Bills, Bonds, 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;

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes debentures, or any other obligations or securities 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) 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 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; and
8. Under limited circumstances, 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 obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of tax exempt 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."

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$393,309 and the bank balance was \$408,457. Of the bank balance:

1. \$185,991 was covered by federal depository insurance; and
2. \$222,466 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 Federal Deposit Insurance Corporation.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

7. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts, intergovernmental and interfund receivables. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
CAFS	<u>\$11,680</u>
Special Revenue Funds:	
Title II	109
Title VI-B Grant	29,488
Title VI-B Early Childhood Development Grant	3,221
Abstinence Only Grant	<u>53,812</u>
Total Special Revenue Funds	<u>86,630</u>
Total All Funds	<u><u>\$98,310</u></u>

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

8. FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$57,249	\$0	\$0	\$57,249
Buildings and Improvements	492,344	0	0	492,344
Equipment and Furniture	316,710	19,213	8,911	327,012
Total	<u>\$866,303</u>	<u>\$19,213</u>	<u>\$8,911</u>	<u>\$876,605</u>

There was no significant construction in progress at June 30, 2002.

9. RISK MANAGEMENT

A. Property and Liability

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 with Nationwide Insurance. Coverage provided is as follows:

Building and Contents-replacement cost (\$250 deductible)	\$ 627,040
Automobile Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is 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 GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

C. Medical Benefits

For fiscal year 2002, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Educational Service Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

10. DEFINED BENEFIT PENSION PLANS

A. 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. 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. 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 Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$19,551, \$15,147, and \$13,435, respectively; 90 percent was contributed for fiscal year 2002, and 100 percent was contributed for fiscal years 2001 and 2000. \$1,909 representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

B. 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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations 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 contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$148,537, \$210,056, and \$192,516, respectively; 92 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$11,472 represents the unpaid contribution for fiscal year 2002, and is recorded as a liability within the respective funds.

C. Social Security System

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

11. 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 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, 2002, the STRS 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 equaled \$2,841 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. 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 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.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$34,842.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. All twelve month employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time does carry beyond the contract year in which it is earned. Accumulated, unused vacation time is paid to administrators upon termination of employment if negotiated with the Board of Education. Teachers do not earn vacation time. All employees earn three days of personal leave per fiscal year. Accumulated, unused personal leave does not carry beyond the contract year in which it is earned.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 195 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for all employees.

B. Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Employee Life Insurance. Medical and surgical benefits for most employees are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (Note 14).

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

13. LONG-TERM OBLIGATIONS

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

	<u>Amount Outstanding 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/02</u>
Intergovernmental Payable	\$1,190	\$4,263	\$1,190	\$4,263
Compensated Absences	147,861	0	11,730	136,131
Total General Long-Term Obligations	<u>\$149,051</u>	<u>\$4,263</u>	<u>\$12,920</u>	<u>\$140,394</u>

Compensated absences will be paid from the fund from which the person is paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the employee's salary is paid.

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Educational Service Center is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. 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 MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA were made from the general fund in the amount of \$8,211 during fiscal year 2002. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, the Educational Service Center paid \$3,644 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Miami Valley Career Technology Center - The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from seventeen of the twenty-six participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city, local, and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, Huber Heights, Trotwood-Madison, Carlisle, Eaton, Versailles, Northmont, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from each of the following County Educational Service Centers: Miami, Preble, and Darke. The Educational Service Center had no payments to the Miami Valley Career Technology Center during fiscal year 2002. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Jessup, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

15. CONTINGENCIES

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.

16. INTERFUND RECEIVABLE/PAYABLE

At June 30, 2002, there was an outstanding interfund receivable in the General Fund and an interfund payable in the Title VI-B Special Revenue Fund of \$658. There was also a due from other funds in the General Fund and a due to other funds in the Summer Institute for Reading Special Revenue Fund of \$217.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED JUNE 30, 2002**

17. FISCAL CAUTION

The Ohio Department of Education, in consultation with the State of Ohio Auditor's Office, has developed guidelines for identifying fiscal practices that, if uncorrected, could result in a future declaration of fiscal watch or fiscal emergency. If the Ohio Department of Education determines that an entity is engaging in these practices, they may place the entity in fiscal caution. The Educational Service Center was placed under fiscal caution on May 13, 2002, by the Ohio Department of Education due to a projected deficit in the general fund at fiscal year-end. Factors contributing to the deficit were a freeze on per pupil student aid for the last several years and changes in the per pupil funding formula, which kept state aid at a constant level, while expenditures were increasing. The Educational Service Center has not, in the past, recouped the total costs of providing services to client districts. The Educational Service Center has submitted a Financial Recovery Plan including new service charges to clients, personnel and staff reductions, and changes in employee benefits.

18. STATE SCHOOL FUNDING DECISION

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

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

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

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

During November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	046615 6B-SF 01	84.027	\$37,953	\$54,410
	046615 6B-SF 02	84.027	348,078	329,903
Total Special Education Grants to States			385,031	384,313
Special Education - Preschool Grant	046615 PG-S1 01	84.173	8,389	9,101
	046615 PG-S1 02	84.173	37,809	38,467
Total Special Education - Preschool Grant			47,198	47,568
Total Special Education Cluster			432,229	431,881
Goals 2000 - State and Local Education Systemic Improvement	046615-G2U1-01	84.276	25,000	24,000
	046615 G2-S4 99	84.276		14,000
Total Goals 2000 - State and Local Education Systemic Improvement			25,000	38,000
Eisenhower Math & Science	046615 MS-S1 01	84.281		17,920
	046615 MS-S1 00	84.281		2,660
Total Eisenhower Professional Development Grants				20,580
Passed Through Ohio Department of Health:				
Special Education - Grants for Infants and Families with Disabilities	19500 11AN 01	84.181	20,735	22,869
Total U.S. Department of Education			477,964	513,331
U.S. DEPARTMENT OF LABOR				
Passed Through Ohio Department of Education:				
Employment and Training Assistance		17.246		146
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed Through Ohio Department of Health:				
Abstinence Only Education Program	19500 11CS 01	93.235	37,500	36,519
	19500 14CS 02	93.235	128,628	128,628
Total Abstinence Only Education Program			166,128	165,147
Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:				
Community Alternative Funding System		93.778	54,811	54,811
Total U.S. Department of Health and Human Services			220,939	219,958
Totals			\$698,903	\$733,434

The accompanying notes to this schedule are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED 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.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

We have audited the financial statements of Educational Service Center, Darke County (the Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective 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 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. However, we 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 Center in a separate letter dated December 5, 2002.

Educational Service Center
Darke County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, County Board of Education, and 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 5, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

Compliance

We have audited the compliance of the Darke County Educational Service Center, Darke County (the Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The 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 Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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.

As described in item 2002-10319-001 in the accompanying schedule of findings, the Center did not comply with requirement regarding reporting that is applicable to its Special Education Cluster major federal programs. Compliance with such requirement is necessary, in our opinion, for the Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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 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 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. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to the management of the Center in a separate letter dated December 5, 2002.

This report is intended for the information and use of the audit committee, management, County Board of Education, and 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.



Jim Petro
Auditor of State

December 5, 2002

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-10319-001
CFDA Title and Number	Special Education Cluster (Title VI-B and Preschool Grant) 84.027 & 84.173
Federal Award Number/Year	046615 6B-SF 02P 046615 PG-S1-01P
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance:

34 CFR 80.20(b)(1) requires financial reports for financially assisted activities be accurate, current, and a complete disclosure of financial results and are to be made in accordance with the financial reporting requirements of the grant, and **34 CFR 80.20(b)(4)** states for budget control purposes that actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Also, the financial information must be related to performance or productivity data, including the development of unit costs information whenever appropriate or specifically required in the grant or subgrant agreement.

The final expenditure reports for the Special Education Cluster Title VI-B and Preschool Grants did not agree with the Educational Service Center's accounting records at the function/object levels.

The following represents actual expenditures per the Educational Service Center's accounting records as compared to the final expenditure reports.

Program Title Pass through Number Activity	Final Expenditure Report	Actual Expenditure Amount by Activity	Variance
CFDA#84.027			
Title VI-B Grant			
Project# 046615-6B-SF-02P			
Salaries	\$129,151	\$117,971	\$(11,180)
Retirement/Benefits	26,182	37,741	11,559
Purchased Services	103,654	103,372	282
Supplies	948	851	97
CFDA#84.173			
Preschool Grant			
Project# 046615-PG-S1-01P			
Salaries	\$ 33,367	\$ 32,247	\$(1,120)
Retirement/Benefits	5,617	6,737	1,120

**3. FINDINGS FOR FEDERAL AWARDS
(Continued)**

34CFR 80.20(b)(1) (Continued)

Additionally, the amounts listed above as actual amounts agreed in total to the approved budget amounts, but did not agree at the function/object level. The program administrator/coordinator should monitor transactions to provide expenditures are within the object and function levels outlined within the approved budget, and seek approval from the grantor to change the operations of the grant. Finally, the fiscal officer should report the transactions on the final expenditure report based upon the object and function levels supported by the Educational Service Center's accounting system to provide the grantor with accurate information on the usage of grant funds.

EDUCATIONAL SERVICE CENTER
DARKE COUNTY

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315 (c)
FOR THE YEAR ENDED JUNE 30, 2002

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contract Person
2002-10319-001	To watch the expending of funds closer to determine their accuracy.	December 31, 2002	Carolyn Gallimore, Treasurer

**EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
2001-10319-001	Charging expenditures to federal grants outside of the period of availability	Yes	
2001-10319-002	Filing a Final Expenditure Report for Goals 2000	Yes	
2001-10319-003	Expenditures exceeding the approved budget amount within Special Education Cluster	No	Repeated in this audit report as item 2002-10319-001.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

DARKE COUNTY EDUCATIONAL SERVICE CENTER

DARKE 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 2, 2003**