



**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 1999 - 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Allen County
204 North Main Street, Room 303
Lima, Ohio 45801

To the Board of Education

We have audited the accompanying financial statements of the Educational Service Center, Allen County, (the Center) as of and for the years ended June 30, 1999 and June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-01, requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the Center prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, can not be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Educational Service Center, Allen County, as of June 30, 1999 and June 30, 1998, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2000, 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.

This report is intended solely for the information and use of the management, the audit committee, Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

January 5, 2000

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Intergovernmental	\$1,152,060	\$363,389	\$0	\$1,515,449
Interest	73,694	0	0	73,694
Tuition and Fees	1,310	15,366	0	16,676
Extracurricular Activities	0	358	0	358
Customer Services	1,618,646	0	0	1,618,646
Other	0	39,125	98,000	137,125
Total Cash Receipts	<u>2,845,710</u>	<u>418,238</u>	<u>98,000</u>	<u>3,361,948</u>
Cash Disbursements				
Current:				
Instruction:				
Special	1,124,368	31,643	0	1,156,011
Support Services:				
Pupils	655,941	4,810	20,513	681,264
Instructional Staff	417,050	72,226	84	489,360
Board of Education	7,988	0	0	7,988
Administration	248,839	0	0	248,839
Fiscal	54,523	0	0	54,523
Operation and Maintenance of Plant	5,395	0	0	5,395
Pupil Transportation	0	81,303	0	81,303
Central	0	2,998	0	2,998
Intergovernmental	0	191,535	0	191,535
Total Cash Disbursements	<u>2,514,104</u>	<u>384,515</u>	<u>20,597</u>	<u>2,919,216</u>
Cash Receipts Over (Under) Cash Disbursements	331,606	33,723	77,403	442,732
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	21,101	0	0	21,101
Refund of Prior Year Receipts	(65)	0	0	(65)
Pass-Through	0	(18,613)	0	(18,613)
Total Other Financing Sources and Uses	<u>21,036</u>	<u>(18,613)</u>	<u>0</u>	<u>2,423</u>
Total Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	352,642	15,110	77,403	445,155
Fund Cash Balances at Beginning of Year	700,793	217,771	170,037	1,088,601
Fund Cash Balances at End of Year	<u>\$1,053,435</u>	<u>\$232,881</u>	<u>\$247,440</u>	<u>\$1,533,756</u>

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Type</u> <u>Internal Service</u>	<u>Fiduciary Fund Type</u> <u>Agency</u>	<u>Totals (Memorandum Only)</u>
Operating Cash Receipts:	\$0	\$0	\$0
Operating Cash Disbursements:			
Salaries	0	2,000	2,000
Fringe Benefits	0	501	501
Purchased Services	1,547	9,366,850	9,368,397
Materials and Supplies	561	5,870	6,431
Other	886	387,050	387,936
Total Operating Cash Disbursements	<u>2,994</u>	<u>9,762,271</u>	<u>9,765,265</u>
Operating Income/(Loss)	(2,994)	(9,762,271)	(9,765,265)
Non-Operating Cash Receipts:			
Earnings on Investments	0	311,904	311,904
Refund of Prior Year Expenditures	0	190,860	190,860
Other Miscellaneous	1,700	8,220,532	8,222,232
Total Non-Operating Cash Receipts	<u>1,700</u>	<u>8,723,296</u>	<u>8,724,996</u>
Net Receipts Over/(Under) Disbursements	(1,294)	(1,038,975)	(1,040,269)
Fund Cash Balances at Beginning of Year	<u>1,035</u>	<u>6,034,421</u>	<u>6,035,456</u>
Fund Cash Balances at End of Year	<u>(\$259)</u>	<u>\$4,995,446</u>	<u>\$4,995,187</u>

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

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General Fund	\$ 3,390,833	\$2,866,811	\$ (524,022)
Special Revenue Funds	304,145	418,238	114,093
Capital Projects Fund	49,000	98,000	49,000
Proprietary			
Internal Service Fund	1,950	1,700	(250)
Fiduciary			
Agency Fund	<u>9,388,843</u>	<u>8,723,296</u>	<u>(665,547)</u>
Total All Funds (Memorandum Only)	<u>\$13,134,771</u>	<u>\$12,108,045</u>	<u>\$(1,026,726)</u>

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

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>1999 Appropriations</u>	<u>Total</u>
Governmental			
General Fund	\$ 12,713	\$ 3,390,834	\$ 3,403,547
Special Revenue Funds	22,983	315,663	338,646
Capital Project Fund	1,041	217,996	219,037
Proprietary			
Internal Service Fund	0	2,985	2,985
Fiduciary			
Agency Funds	<u>2,800</u>	<u>8,997,200</u>	<u>9,000,000</u>
Total All Funds (Memorandum Only)	<u><u>\$39,537</u></u>	<u><u>\$12,924,678</u></u>	<u><u>\$12,964,215</u></u>

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

<u>Actual 1999 Disbursements</u>	<u>Encumbrances Outstanding as of 6/30/99</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 2,514,169	14,655	\$ 2,528,824	\$ 874,723
403,128	44,945	448,073	(109,427)
20,597	889	21,486	197,551
2,994	173	3,167	(182)
<u>9,762,271</u>	<u>2,800</u>	<u>9,765,071</u>	<u>(765,071)</u>
<u>\$12,703,159</u>	<u>\$ 63,462</u>	<u>\$12,766,621</u>	<u>\$197,594</u>

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Intergovernmental	\$2,058,768	\$174,395	\$0	\$2,233,163
Interest	64,145	0	0	64,145
Tuition and Fees	2,239	12,408	0	14,647
Extracurricular Activities	0	204	0	204
Customer Services	546,638	0	0	546,638
Other	0	38,803	150,000	188,803
Total Cash Receipts	<u>2,671,790</u>	<u>225,810</u>	<u>150,000</u>	<u>3,047,600</u>
Cash Disbursements				
Current:				
Instruction:				
Special	1,148,643	42,917	0	1,191,560
Support Services:				
Pupils	669,096	574	5,981	675,651
Instructional Staff	431,158	63,874	324	495,356
Board of Education	7,237	0	0	7,237
Administration	255,502	6,260	0	261,762
Fiscal	52,016	0	0	52,016
Operation and Maintenance of Plant	4,805	0	0	4,805
Pupil Transportation	467	105,154	0	105,621
Central	0	666	0	666
Total Cash Disbursements	<u>2,568,924</u>	<u>219,445</u>	<u>6,305</u>	<u>2,794,674</u>
Cash Receipts Over (Under) Cash Disbursements:	102,866	6,365	143,695	252,926
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	22,623	0	0	22,623
Refund of Prior Year Receipts	(165)	0	0	(165)
Total Other Financing Sources and Uses	<u>22,458</u>	<u>0</u>	<u>0</u>	<u>22,458</u>
Total Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	125,324	6,365	143,695	275,384
Fund Cash Balances at Beginning of Year	575,469	211,406	26,342	813,217
Fund Cash Balances at End of Year	<u>\$700,793</u>	<u>\$217,771</u>	<u>\$170,037</u>	<u>\$1,088,601</u>

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

	<u>Proprietary Fund Type</u> Internal Service	<u>Fiduciary Fund Type</u> Agency	<u>Totals (Memorandum Only)</u>
Operating Cash Receipts:	\$0	\$0	\$0
Operating Cash Disbursements:			
Salaries	0	2,000	2,000
Fringe Benefits	0	280	280
Purchased Services	1,032	8,486,423	8,487,455
Materials and Supplies	532	49	581
Other	390	324,108	324,498
Total Operating Cash Disbursements	<u>1,954</u>	<u>8,812,860</u>	<u>8,814,814</u>
Operating Income/(Loss)	(1,954)	(8,812,860)	(8,814,814)
Non-Operating Cash Receipts:			
Earnings on Investments	0	362,232	362,232
Other Miscellaneous	1,550	7,909,665	7,911,215
Total Non-Operating Cash Receipts	<u>1,550</u>	<u>8,271,897</u>	<u>8,273,447</u>
Net Receipts Over/(Under) Disbursements	(404)	(540,963)	(541,367)
Fund Cash Balances at Beginning of Year	<u>1,439</u>	<u>6,575,384</u>	<u>6,576,823</u>
Fund Cash Balances at End of Year	<u>\$1,035</u>	<u>\$6,034,421</u>	<u>\$6,035,456</u>

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

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1998**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General Fund	\$ 3,014,543	\$2,694,413	\$ (320,130)
Special Revenue Funds	109,558	225,810	116,252
Capital Projects Fund	150,000	150,000	0
Proprietary			
Internal Service Fund	1,000	1,550	550
Fiduciary			
Agency Fund	<u>9,814,572</u>	<u>8,271,897</u>	<u>(1,542,675)</u>
Total All Funds (Memorandum Only)	<u>\$13,089,673</u>	<u>\$11,343,670</u>	<u>\$(1,746,003)</u>

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

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**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 1998**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>1998 Appropriations</u>	<u>Total</u>
Governmental			
General Fund	\$ 31,024	\$ 3,014,543	\$ 3,045,567
Special Revenue Funds	10,396	347,963	358,359
Capital Project Fund	0	274,342	274,342
Proprietary			
Internal Service Fund	0	2,939	2,939
Fiduciary			
Agency Funds	<u>0</u>	<u>9,575,385</u>	<u>9,575,385</u>
Total All Funds (Memorandum Only)	<u>\$41,420</u>	<u>\$13,215,172</u>	<u>\$13,256,592</u>

<u>Actual 1998 Disbursements</u>	<u>Encumbrances Outstanding as of 6/30/98</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 2,569,089	12,713	\$ 2,581,802	\$ 463,765
219,445	22,982	242,427	115,932
6,305	1,041	7,346	266,996
1,954	0	1,954	985
<u>8,812,860</u>	<u>2,800</u>	<u>8,815,660</u>	<u>759,725</u>
<u>\$11,609,653</u>	<u>\$39,536</u>	<u>\$11,649,189</u>	<u>\$1,607,403</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 and 1998**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Allen County Educational Service Center (the Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Center operates under an elected board of education (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

Management believes the financial statements included in this report represent all of the funds of the Center over which the Center has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code Section 117-2-01 to prepare its annual financial report in accordance with generally accepted accounting principles, the Center chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. POOLED CASH AND INVESTMENTS

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

During fiscal years 1998 and 1999, investments were limited to STAROhio, treasury notes, and federal government securities.

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal years 1998 and 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 1999.

D. FUND ACCOUNTING

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (Continued)

GOVERNMENTAL FUNDS

General Fund

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

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Capital Projects Funds

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Agency Funds

To account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and/or other funds.

E. BUDGETARY PROCESS

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

The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETARY PROCESS (Continued)

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 Center. Part (C) includes the adopted appropriation resolution of the Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Center the amount from part (B) that is to be apportioned to their district.

Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenses of the Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of the Center.

The Center 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. 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, consistent with statutory provisions.

Encumbrances:

The Ohio Revised Code requires the Center to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

F. PROPERTY, PLANT, AND EQUIPMENT

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

G. ACCUMULATED UNPAID VACATION AND SICK LEAVE

Accumulated unpaid vacation and sick pay are not accrued under the cash basis of accounting described in Note 1. At June 30, 1999, and in accordance with the Center's sick leave policy, management estimates that \$1,174,996 in sick leave, \$7,858 in personal leave and \$10,356 in vacation leave has been accumulated by the employees of the Center. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 1999.

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS

State statutes classifies monies held by the Center into three categories.:

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

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

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures, or any other obligations or 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

The Center may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligations of the Center.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Deposits: At fiscal year end 1999, the carrying amount of the Center's deposits was \$2,752,048 and the bank balance was \$2,827,335. Of the bank balance, \$206,233 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized.

At fiscal year end 1998, the carrying amount of the Center's deposits was \$2,271,947 and the bank balance was 2,221,191. Of the bank balance, \$303,887 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized.

Although the securities serving as collateral were held by the pledging financial institution's trust department in the Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements", requires that local governments disclose the carrying amounts and market value of investments, classified by risk. The government's investments are categorized as either (1) insured or registered, or securities are held by the Center or its agent in the Center's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Center's name or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Center's name. Investments in STAROhio are not classified since they are not evidenced by securities that exist in physical or book entry form.

	1999	<u>Risk Category</u>	<u>Carrying</u>	<u>Fair</u>
		<u>2</u>	<u>Value</u>	<u>Value</u>
Treasury Notes		\$1,000,393	\$1,000,393	\$1,000,625
Federal Agency Securities		1,741,558	1,741,558	1,737,585
STAROhio			1,034,944	1,034,944
Total			<u>\$3,776,895</u>	<u>\$3,773,154</u>
	1998	<u>Risk Category</u>	<u>Carrying</u>	<u>Fair</u>
		<u>2</u>	<u>Value</u>	<u>Value</u>
Treasury Notes		\$3,000,000	\$3,000,000	\$3,006,250
Federal Agency Securities		500,466	500,466	497,500
STAROhio			1,351,644	1,351,644
Total			<u>\$4,852,110</u>	<u>\$4,855,394</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 3 - STATE FUNDING

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources. Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program.

The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$34. This amount is provided from State resources.

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

NOTE 4 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1999, the Center contracted with Nationwide Insurance for general liability and fleet insurance, and with Indiana Insurance Company for property insurance. Coverages provided by the various insurances are as follows:

Building Contents-replacement cost	\$ 112,000
Automobile Liability (\$250 deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

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

The Center participates in the Northwest Ohio Area Computer Services Cooperative Worker's Compensation Group Rating Plan (the Plan), an insurance purchasing pool Note 8. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants of the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to education entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premium, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

The Center participates in the Allen County Schools Health Benefit Plan (the Plan), a public entity shared risk pool consisting of the school districts within Allen County. The participants pay monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 4 - RISK MANAGEMENT (Continued)

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 8, the Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The life insurance and cafeteria 125 plans are also administered by CoreSource. In fiscal year 1999, the Center contributed \$2,685 to the life insurance plan and \$9,402 to the cafeteria 125 flexible plan.

NOTE 5 - FEDERAL AND STATE GRANTS

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 1999 or 1998.

NOTE 6 - DEFINED BENEFIT PENSION PLAN

State Teachers Retirement System (STRS)

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefits are established by Chapter 3307, of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS, 275 E. Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual salary. The Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion to fund pension obligations was 10.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center has made all required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, and 1998.

School Employees Retirement System (SERS)

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides basic 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 3307 of the Ohio Revised Code. The School Employees Retirement System 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, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement board. The Center has made all required contributions for the fiscal years ended June 30, 1999 and 1998.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 7 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC) which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. 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. Financial information can be obtained from Michael Wildermuth, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

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

SERRC is governed by a board of 52 members made up of representatives from 50 superintendents of the participating districts, one non-public school, and one from Wright State University whose term rotates every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

NOTE 8 - INSURANCE POOLS

Allen County Schools Health Benefit Plan - The Center participates in the Allen County Schools Health Benefit Plan (the Program), a public entity shared risk pool consisting of the school districts within Allen County. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, CoreSource, concerning aspects of the administration of the Trust. Each school district decides which plans offered the Board of Trustees will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums. Financial information can be obtained from Don Smith, who serves as Chairman, at 204 North Main Street, Lima, Ohio 45801.

Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program - The Center participates in the Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a twenty-five member Board of directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. The Treasurer of Findlay City Schools serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Program to cover the costs of administering the program and its financial operations.

NOTE 9 - STATE FUNDING COURT DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's Legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "School Foundation Program", which provides significant monetary support to the Educational Service Center. During the fiscal years ended June 30, 1999 and June 30, 1998, the Educational Service Center received \$1,139,671 and \$2,035,821, respectively, of school foundation support for its General Fund.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 1999 AND 1998
(Continued)

NOTE 9 - STATE FUNDING COURT DECISION (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State Legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

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

Educational Service Center
Allen County
204 North Main Street, Room 303
Lima, Ohio 45801

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Allen County, Ohio (the Center), as of and for the years ended June 30, 1998 and June 30, 1999, and have issued our report thereon dated January 5, 2000, in which we noted that the Center reports on a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 1999-10202-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated January 5, 2000.

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 the management of the Center in a separate letter dated January 5, 2000.

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

JIM PETRO
Auditor of State

January 5, 2000

**SCHEDULE OF FINDINGS
JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10202-001
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Ohio Administrative Code Section 117-2-01, requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

The Center prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

The Center should begin developing procedures and gathering information necessary to prepare financial statements in accordance with generally accepted accounting principles.

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 1999**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1997-10202-001	Cash Basis Statements	No	Not corrected, see Finding Number 1999-10202-001



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ALLEN EDUCATIONAL SERVICE CENTER

ALLEN 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
APRIL 11, 2000**