



Mary Taylor, CPA
Auditor of State

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, (the Service Center), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, as of the years ended June 30, 2007 and 2006, and the respective changes in modified cash financial position for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2008, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the respective schedules of budgetary comparisons for the General and the Science Enhancement for Science Advancement (SESA) Funds are not a required part of the basic financial statements but are supplemental information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 12, 2008

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (the "Service Center") financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- General Receipts accounted for \$756,156 or 12 percent of all receipts. Charges for Services and Operating Grants and Contributions accounted for \$5,532,340 or 88 percent of all receipts.
- Total program expenses were \$6,697,698 for all governmental activities.
- In total, net assets decreased \$409,202.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2007, the General Fund and Science Enhancement for Science Advancement (SESA) Fund are the most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents and investments. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question.

These two statements report the Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the financial position of the Service Center has improved or diminished. The causes of the change may be the result of many factors, such as the ability of the local school districts to continue to contract for services from the Service Center which is their major source of revenue.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, and operation and maintenance of plant (buildings).

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 6. Fund financial reports provide detailed information about the Service Center's major fund. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant fund(s). The Service Center's major governmental funds are the General fund and SESA fund.

Governmental Funds - Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 13. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

The Service Center as a Whole

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for 2007 compared to 2006:

(Table 1)
Net Assets – Modified Cash Basis

	Governmental Activities	
	2007	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	\$826,523	\$1,235,725
Total Assets	826,523	1,235,725
Net Assets		
Restricted for Other Purposes	136,439	45,901
Unrestricted	690,084	1,189,824
Total Net Assets	\$826,523	\$1,235,725

Table 2 shows the changes in net assets for fiscal year 2007 and 2006. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities	
	2007	2006
Receipts		
Program Receipts		
Charges for Services	\$4,560,663	\$4,554,679
Operating Grants	971,677	1,285,246
Capital Grants		10,000
General Receipts		
Grants and Entitlements	685,900	441,777
Interest	61,189	41,423
Miscellaneous	9,067	16,583
Total Receipts	6,288,496	6,349,708
Program Disbursements		
Instruction	3,749,229	3,286,239
Support Services	2,663,015	2,832,191
Non-Instructional	6,711	5,709
Capital Outlay	278,743	
Total Disbursements	6,697,698	6,124,139
(Decrease) Increase in Net Assets	(\$409,202)	\$ 225,569

During fiscal year 2007, in addition to salary increases, the Service Center remodeled the garages into classrooms and added a new program for autism. The additional disbursements are reflected in the decrease in net assets and cash as of June 30, 2007.

The overall decrease in Net Assets is due to a slight decrease in receipts from the prior year while still continuing to incur the increasing costs of providing instruction. Also, there is the presence of capital outlay disbursements in the current year that were not incurred in the prior year.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Governmental Activities

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$5.5 million in 2007. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants and Contributions were 88 percent of total receipts in 2007.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services receipts and unrestricted State entitlements.

**(Table 3)
Governmental Activities**

	2007		2006	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$3,749,229	\$ 162,713	\$3,286,239	(\$890,335)
Support Services:				
Pupil and Instructional Staff	2,049,149	355,140	2,067,696	512,778
Board of Education, Administration				
Fiscal and Business	478,555	361,773	587,453	587,453
Operation and Maintenance of Plant	318	318	924	924
Pupil Transportation	125,764	(6,269)	156,823	52,030
Central	9,229	6,229	19,295	5,655
Operation of Non-instructional Services	6,711	6,711	5,709	5,709
Capital Outlay	278,743	278,743		
Total	\$6,697,698	\$ 1,165,358	\$6,124,139	\$ 274,214

Instruction and student support services comprise 87 percent of governmental program disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 2 percent of governmental program disbursements. Board of Education, administration, fiscal and business charges totaled 7 percent.

The Service Center's Funds

The Service Center has two major governmental funds: the general fund and the SESA fund. The assets of these funds comprise \$782,875, or 95 percent of the \$826,523 in total governmental funds' assets.

General Fund - Fund balance at June 30, 2007 was \$690,084, including \$571,228, or 83 percent, of unreserved balance. General fund disbursements for fiscal year 2007 were \$6,287,766, or 94 percent of total governmental disbursements of \$6,697,698.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

SESA Fund - The Science Enhance for Science Advancement (SESA) Fund is used to enhance science learning in schools. SESA is a partnership between the Allen County Schools, Lima City Schools and industry partners. The partners have a committee that meets one-two times per year to determine the budget and which companies will be asked to contribute. The fund pays for COSI and science experiments to be brought into the classrooms for demonstrations as well as the substitute's salary for the teacher-in-residence whom manages and organizes the events of SESA.

During fiscal year 2007, fund balance increased \$39,203 due to a decrease in Instructional Staff disbursements. Fund balance at June 30, 2007 was \$92,791, including \$53,103, or 57 percent, of unreserved fund balance. The SESA fund balance comprises 11 percent of total governmental fund balances.

General Fund Budgeting Highlights

The Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2007, the Service Center did not significantly modify its general fund or SESA fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

Refer to the required supplemental information for more detail on the budget.

Current Issues

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the \$6.50 per student from the local schools, the \$37.00 per student from the State Foundation Program and any grants secured. Those rates have been the same for the last decade and the Service Center does not anticipate any increase.

The Service Center's largest receipt stream is the contracts secured from the services offered. The Service Center is like all businesses: trying to do more with less. As staff retire or resign they are not replaced if at all possible. The employees are paying more for their benefits. How the legislature plans to fund educational programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, Ohio 45801-3309.

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EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$826,523
Total Assets	<u>826,523</u>
Net Assets	
Restricted for Other Purposes	136,439
Unrestricted	690,084
Total Net Assets	<u>\$826,523</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

		Program Cash Receipts		Net (Disbursements) Receipts and Changes In Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction				
Regular	\$262,300	\$7,617	\$82,461	(\$172,222)
Special	3,486,929	3,043,229	453,209	9,509
Support Services:				
Pupil	1,392,395	1,363,802	10,000	(18,593)
Instructional Staff	656,754		320,207	(336,547)
Board of Education	11,089			(11,089)
Administration	364,442			(364,442)
Fiscal	102,132	116,782		14,650
Business	892			(892)
Operation and Maintenance of Plant	318			(318)
Pupil Transportation	125,764	29,233	102,800	6,269
Central	9,229		3,000	(6,229)
Operation of Non-Instructional Services	6,711			(6,711)
Capital Outlay	278,743			(278,743)
	\$6,697,698	\$4,560,663	\$971,677	(1,165,358)
 General Receipts				
Grants and Entitlements not Restricted to Specific Programs				685,900
Interest				61,189
Miscellaneous				9,067
				756,156
Change in Net Assets				(409,202)
Net Assets - Beginning of Year				1,235,725
Net Assets - End of Year				\$826,523

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$690,084	\$92,791	\$43,648	\$826,523
Total Assets	<u>690,084</u>	<u>92,791</u>	<u>43,648</u>	<u>826,523</u>
 Fund Balances				
Reserved for Encumbrances	118,856	39,688	11,182	169,726
Unreserved, Undesignated, Reported in:				
General Fund	571,228			571,228
Special Revenue Funds		53,103	32,466	85,569
Total Fund Balances	<u>\$690,084</u>	<u>\$92,791</u>	<u>\$43,648</u>	<u>\$826,523</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General Fund</u>	<u>SESA Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts				
Intergovernmental	\$1,145,541		\$397,196	\$1,542,737
Interest	61,189			61,189
Tuition and Fees	621		29,233	29,854
Extracurricular Activities	6,954			6,954
Contract Services	4,407,072			4,407,072
Gifts and Donations		\$74,041		74,041
Miscellaneous	165,526			165,526
Total Receipts	<u>5,786,903</u>	<u>74,041</u>	<u>426,429</u>	<u>6,287,373</u>
Disbursements				
Current:				
Instruction				
Regular	177,114		85,186	262,300
Special	3,479,377		7,552	3,486,929
Support Services:				
Pupil	1,392,395			1,392,395
Instructional Staff	468,403	34,838	153,513	656,754
Board of Education	11,089			11,089
Administration	364,442			364,442
Fiscal	102,132			102,132
Business	892			892
Operation and Maintenance of Plant	318			318
Pupil Transportation	6,150		119,614	125,764
Central			9,229	9,229
Operation of Non-Instructional Services	6,711			6,711
Capital Outlay	278,743			278,743
Total Disbursements	<u>6,287,766</u>	<u>34,838</u>	<u>375,094</u>	<u>6,697,698</u>
Excess of Receipts Over/(Under) Disbursements	(500,863)	39,203	51,335	(410,325)
Other Financing Sources				
Refund of Prior Year Expenditures	<u>1,123</u>			<u>1,123</u>
Total Other Financing Sources	<u>1,123</u>			<u>1,123</u>
Net Change in Fund Balances	(499,740)	39,203	51,335	(409,202)
Fund Balances - Beginning of Year	<u>1,189,824</u>	<u>53,588</u>	<u>(7,687)</u>	<u>1,235,725</u>
Fund Balances - End of Year	<u>\$690,084</u>	<u>\$92,791</u>	<u>\$43,648</u>	<u>\$826,523</u>

See accompanying notes to the financial statements.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2007

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$4,137,001
Investments	<u>5,078,968</u>
Total Assets	<u><u>9,215,969</u></u>
Net Assets	
Held in Trust for:	
Others	87,151
Pool Participants	<u>9,128,818</u>
Total Net Assets	<u><u>\$9,215,969</u></u>

See accompanying notes to the financial statements.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Allen County Educational Service Center (the Service 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 Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service 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.

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 of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related activities.

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

The Service Center is associated with three jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Regional School Improvement Team, the West Central Ohio Special Education Regional Resource Center, the Schools of Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 9 and 10 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 A., these financial statements are presented on a modified cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Service Center does not apply FASB statements issued after November 30, 1989.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following are the more significant of the Service Center's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets-Modified Cash Basis and Statement of Activities-Modified Cash Basis display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions.

The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

2. Fund Financial Statements

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds.

The major funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds:

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

SESA Fund - The SESA (Science Enhance for Science Advancement) Fund is used to enhance science learning in schools. SESA is a partnership between the Allen County Schools, Lima City Schools and industry partners. The partners have a committee that meets 1-2 times per year to determine the budget and which companies will be asked to contribute. The fund pays for COSI and science experiments to be brought into the classrooms for demonstrations as well as the substitute for the teacher in residence whom manages and organizes the events of SESA.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations. The School District's agency funds are established for employee benefit plans, academic quiz bowl activities, and the regional school improvement team.

C. Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures which are reported and defined in the supplemental information of this report.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Health Care Benefit Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

For purposes of financial reporting, 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2007, investments were limited to money market accounts, premium interest-bearing accounts, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Bonds and STAR Ohio. These bonds and accounts are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2007 were \$61,189, which included \$11,014 assigned from other funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

F. Accumulated Leave

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

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory and Prepaid Items

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

I. Flow-Through Grants

The 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 Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2007, this was the Preschool Grant.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets and displayed in separate components:

- a. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes.
- b. **Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. The Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. The Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings deposit accounts including but not limited to passbook savings accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio)
8. 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
9. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

A. Deposits

At June 30, 2007, the carrying amount of the Service Center's deposits was \$4,929,377 and the bank balance was \$5,464,248. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$800,000 was covered by federal depository insurance and \$4,664,248 was collateralized but uninsured.

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

Investments are reported at cost. As of June 30, 2007, the Service Center's investments were as follows:

	Market		% of Total	Maturities (at Cost)	
	Value	Cost		< 1 yr	1-5 yrs
Federal Home Loan Bank Cons. Bond	\$ 317,299	\$ 324,286	6.3	\$ 0	\$ 324,286
Federal National Mortgage Association	1,493,750	1,510,812	29.6	500,000	1,010,812
Federal Home Loan Bank Call Step	2,244,378	2,250,707	44.0	999,125	1,251,582
Federal Home Loan Bank Call Bond	676,108	682,035	13.3	0	682,035
Federal Home Loan Mortgage Corp.	247,637	244,396	4.8	244,396	0
STAR Ohio	100,879	100,879	2.0	100,879	0
Total	\$5,080,051	\$5,113,115	100.0	\$1,844,400	\$3,268,715

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

D. Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

Of the Service Center's investments, Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Star Ohio all have credit ratings of AAA with Standard and Poor's and are held by the investment's counterparty and not in the name of the Service Center.

E. Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. More than 5 percent of the Service Center's investments are in FHLB and FNMA bonds. These investments are 63.69 percent and 29.57 percent, respectively, of the Service Center's total investments for the amounts listed above.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. PRIMARY RECEIPT SOURCES

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

A. State Foundation Distributions - Amounts Paid by the State

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

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

B. State Foundation Distributions

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

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

6. RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. RISK MANAGEMENT (Continued)

During fiscal year 2007, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property Insurance	\$ 414,405
Automobile Liability	2,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000
Errors and Omissions	2,000,000
Crime Cover	50,000

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

The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The third party administrator is Frank Gates Service Company.

B. Workers' Compensation

For fiscal year 2007, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its worker's 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 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 share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The Service 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 Service Center pays 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.

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 10, the Service Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by AFLAC and Allied Benefit Systems, Inc. In fiscal year 2007, the Service Center contributed \$4,902 to the life insurance plan and \$30,200 to the cafeteria 125 flexible plan.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. PENSION PLANS

A. School Employees Retirement System

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at www.ohsers.org under *Forms and Publications*.

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$82,521, \$65,997, and \$57,260 respectively. The Service Center has paid all contributions required through June 30, 2007.

B. State Teachers Retirement System

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a stand alone financial report that may be obtained by writing to the STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. Under ORC Chapter 3307, DB retirement plan benefits are available to any member whom either has: five years of service credit and attained age 60, twenty-five years of service credit and attained age 55, or thirty years of service credit regardless of age. Benefits are increased annually by 3 percent of the original base amount for the DB Plan participants.

The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices of the member. Under Revised Code Sections 3307.80 to 3307.89, a member is eligible to receive a retirement benefit at age 50 and termination of employment.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. PENSION PLANS (Continued)

The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The contribution requirement of plan members and the Service Center are established and may be amended by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$342,962, \$307,789, and \$292,396, respectively; 82 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$9,726 made by the Service Center and \$18,325 made by the plan members.

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, 2007, no members of the Board of Education members have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POST-EMPLOYMENT BENEFITS

The Service Center provides comprehensive health care benefits to retirees who participated in the DB or Combined Plans 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). Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Both systems are funded on a pay as you go basis.

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, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount was \$26,689.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, the Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in ORC 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2007 was \$93.50; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2007, the actuarially required allocation was .68 percent.

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

Coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

The Health Care Fund was established under, and is administered in accordance with, Internal revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocated the remainder of the employer's 14 percent contribution to the Health Care Fund. At June 30, 2007, the health care allocation was 3.32 percent. The actuarially required contribution (ARC), as of December 31, 2006 annual valuation, was 11.50 percent of covered payroll.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2007, the minimum compensation level was established at \$35,800. For the Service Center, this amount was \$35,035 for fiscal year 2007.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

9. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

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

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2007, the Service Center paid \$8,354 to NOACSC for various services. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

B. West Central Regional School Improvement Team

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

The Center is governed by a fifty-two member board made up of representatives from the participating educational entities, the business community, and two institutions of higher learning. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained by contacting Allen County Educational Service Center, 1920 Slabtown Road, Lima, Ohio 45801.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained by contacting Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

10. INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

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

B. Ohio School Boards Association Workers' Compensation Group Rating Program

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the Plan. Thee workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the Plan.

C. Allen County Schools Health Benefit Plan

The Service 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 Program 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 Trustees, AFLAC and Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. OPERATING LEASES

The Service Center was obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2005 for a term of 60 months with monthly payments of \$12,917. Payments are made from the general fund and totaled \$155,000 for fiscal year 2007.

The Service Center is obligated under an operating lease agreement with Perry Corporation for copiers. This agreement does not give rise to property rights. The lease is for a term of 3,840,000 total aggregate copies and a minimum annual commitment of 750,000 aggregate copies at a price of \$0.0228 per copy. The lease was effective December 29, 2006. Lease payments are made to Perry Corp. Payments are allocated to the funds which use the copiers.

12. CONTRACTUAL COMMITMENTS

At June 30, 2007 the Service Center had the following outstanding contractual commitment:

<u>Contractor/Vendor</u>	<u>Description</u>	<u>Contractual Commitment</u>	<u>Balance</u>
All Temp Refrigeration	Remodel garages into classrooms	\$31,717	\$31,717

13. CONTINGENCIES

Grants - The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2007.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget (Over) Under</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental			\$1,145,541	
Interest			61,189	
Tuition and Fees			621	
Extracurricular Activities			6,954	
Contract Services			4,407,072	
Miscellaneous			165,526	
Total Receipts			<u>5,786,903</u>	
Disbursements				
Current:				
Instruction				
Regular	\$207,272	\$207,314	177,438	\$29,876
Special	3,871,655	3,872,606	3,506,365	366,241
Support Services:				
Pupil	1,320,184	1,536,403	1,405,427	130,976
Instructional Staff	418,415	502,927	470,364	32,563
Board of Education	25,484	25,484	11,599	13,885
Administration	393,927	395,125	371,202	23,923
Fiscal	103,436	112,073	103,386	8,687
Business	8,617	2,500	892	1,608
Operation and Maintenance of Plant	2,243	2,243	318	1,925
Pupil Transportation	15,000	17,150	17,150	
Operation of Non-Instructional Services	9,631	10,132	6,917	3,215
Capital Outlay	333,830	335,564	335,564	
Total Disbursements	<u>\$6,709,694</u>	<u>\$7,019,521</u>	<u>6,406,622</u>	<u>\$612,899</u>
Excess of Receipts Over (Under) Disbursements			<u>(619,719)</u>	
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures			<u>1,123</u>	
Total Other Financing Sources (Uses)			<u>1,123</u>	
Net Change in Fund Balance			(618,596)	
Fund Balance - Beginning of Year			1,085,109	
Prior Year Encumbrances Appropriated			<u>104,715</u>	
Fund Balance - End of Year			<u>\$571,228</u>	

See accompanying notes to the supplemental information.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - SESA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget (Over) Under
	Original	Final		
Receipts				
Miscellaneous			\$74,041	
Total Receipts			74,041	
Disbursements				
Current:				
Support Services				
Instructional Staff	\$148,588	\$148,588	74,526	\$74,062
Total Disbursements	\$148,588	\$148,588	74,526	\$74,062
Excess of Receipts Over (Under) Disbursements			(485)	
Net Change in Fund Balance			(485)	
Fund Balance - Beginning of Year			46,294	
Prior Year Encumbrances Appropriated			7,294	
Fund Balance - End of Year			\$53,103	

See accompanying notes to the supplemental information.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2007**

A. BASIS OF BUDGETING

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

B. GENERAL BUDGET POLICIES

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Governing Board does not budget revenues.

The primary level of budget control established by the Governing Board is at the fund level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budget basis and reserves that portion of the applicable appropriation. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

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. Encumbrance appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedules of Receipts, Disbursements and Change in Fund Balance - Budget and Actual for the General Fund and SESA Fund are presented as supplemental information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Receipts accounted for \$499,783 of all receipts, or 7.8 percent. Charges for Services and Operating and Capital Grants account for \$5,849,925 or 92.2 percent of all receipts.
- Total program expenses were \$6,124,139 for all governmental activities.
- In total, net assets increased \$225,569.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Service Center as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2006, the General Fund is by far the most significant fund.

Basis of Accounting

The Service Center has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net assets will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Service Center as a Whole

Statement of Net Assets and the Statement of Activities - While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

These two statements report the Service Center's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Service Center as a whole, the financial position of the Service Center has improved or diminished. The causes of the change may be the result of many factors, such as the ability of the local school districts to continue to contract for services from the Service Center which is their major source of revenue.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the Service Center's programs and services, including instruction, support services, and operation and maintenance of plant (buildings).

Reporting the Service Center's Most Significant Funds

Fund Financial Statements - The analysis of the Service Center's major fund begins on page 43. Fund financial reports provide detailed information about the Service Center's major fund. The Service Center uses many funds to account for financial transactions. However, this fund financial statement focuses on the Service Center's most significant fund. The Service Center's only major governmental fund is the General fund.

Governmental Funds - Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in three agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 45. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

The Service Center as a Whole

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for 2006 compared to 2005:

(Table 1)
Net Assets – Modified Cash Basis

	Governmental Activities	
	2006	2005
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,235,725	\$1,010,158
Total Assets	1,235,725	1,010,158
Net Assets		
Restricted for Other Purposes	45,901	153,691
Unrestricted	1,189,824	856,467
Total Net Assets	\$1,235,725	\$1,010,158

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Cash balances remained comparable to the prior year with no significant change in the activity of the Service Center.

Table 2 shows the changes in net assets for fiscal year 2006 and 2005. This enables the reader to draw further conclusion about the Service Center's financial status and possibly project future problems.

**(Table 2)
Change in Net Assets**

	Governmental Activities	
	2006	2005
Receipts		
Program Receipts		
Charges for Services	\$4,554,679	\$ 4,929,296
Operating Grants	1,285,246	1,142,092
Capital Grants	10,000	
General Receipts		
Grants and Entitlements	441,777	564,058
Interest	41,423	20,267
Miscellaneous	16,583	59,356
Refund of Prior Year Expenditures		19,111
Total Receipts	6,349,708	6,734,180
Program Disbursements		
Instruction	3,286,239	3,267,008
Support Services	2,832,191	2,578,687
Non-Instructional	5,709	388
Total Disbursements	6,124,139	5,846,083
Increase in Net Assets	\$ 225,569	\$ 888,097

The variance in Operating Grants and General Receipts, Grants and Entitlements is due to the appropriate classification of the Foundation receipts as general receipts as these revenues represent the contributions from participating school districts for the general services of the Service Center.

Governmental Activities

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$5.8 million in 2006. Charges for services are received from local school districts for services performed. Charges for Services and Operating Grants were 92 percent of total receipts in 2006.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by charges for services receipts and unrestricted State entitlements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

**(Table 3)
Governmental Activities**

	2006		2005	
	Total Cost of Service	Net Cost (Receipts) of Service	Total Cost of Service	Net Cost (Receipts) of Service
Instruction	\$3,286,239	(\$890,335)	\$3,267,008	(\$865,583)
Support Services:				
Pupil and Instructional Staff	2,067,696	512,778	2,015,936	184,277
Board of Education, Administration				
Fiscal and Business	587,453	587,453	413,409	413,409
Operation and Maintenance of Plant	924	924	500	500
Pupil Transportation	156,823	52,030	148,184	45,816
Central	19,295	5,655	658	(2,342)
Operation of Non-instructional Services	5,709	5,709	388	(1,382)
Total	\$6,124,139	\$274,214	\$5,846,083	(\$225,305)

Instruction and student support services comprise 87 percent of governmental program disbursements. Pupil transportation and the operation/maintenance of facilities accounts for 3 percent of governmental program disbursements. Board of Education, administration, fiscal and business charges totaled 10 percent.

General Fund Budgeting Highlights

The Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal year 2006, the Service Center did not significantly modify its general fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

Refer to the required supplemental information for more detail on the budget.

Current Issues

Even though the Allen County Educational Service Center provides a public education to special education students and is regarded as a school, the funding and resources are dramatically different from a public school. The Service Center does not receive local tax revenue, pass levies or borrow money. The revenue is limited to the \$6.50 per student from the local schools, the \$37.00 per student from the State Foundation Program and any grants secured. Those rates have been the same for the last decade and the Service Center does not anticipate any increase.

Our largest revenue stream is the contracts we secure from the services we offer. The Service Center is like all businesses and trying to do more with less. As staff retire or resign they are not replaced if at all possible. The employees are paying more for their benefits. How the legislature plans to fund educational programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Karla Wireman, Treasurer of Allen County Educational Service Center, 1920 Slabtown Road, Lima, Ohio 45801-3309.

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EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,235,725
Total Assets	<u>1,235,725</u>
Net Assets	
Restricted for Other Purposes	45,901
Unrestricted	<u>1,189,824</u>
Total Net Assets	<u>\$1,235,725</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Cash Receipts			Capital Grants	Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:					
Instruction					
Regular	\$216,501	\$4,534	\$87,453		(\$124,514)
Special	3,069,738	3,401,325	683,262		1,014,849
Support Services					
Pupil	1,186,175	1,124,765	30,467	10,000	(20,943)
Instructional Staff	881,521		389,686		(491,835)
Board of Education	10,480				(10,480)
Administration	487,208				(487,208)
Fiscal	88,873				(88,873)
Business	892				(892)
Operation and Maintenance of Plant	924				(924)
Pupil Transportation	156,823	13,415	91,378		(52,030)
Central	19,295	10,640	3,000		(5,655)
Operation of Non-Instructional Services	5,709				(5,709)
Total Governmental Activities	\$6,124,139	\$4,554,679	\$1,285,246	\$10,000	(274,214)
			General Receipts		
			Grants and Entitlements not		
			Restricted to Specific Programs	441,777	
			Interest	41,423	
			Miscellaneous	16,583	
			Total General Receipts	499,783	
			Change in Net Assets		225,569
			Net Assets - Beginning of Year		1,010,156
			Net Assets - End of Year		\$1,235,725

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,189,824	\$45,901	\$1,235,725
Total Assets	<u>1,189,824</u>	<u>45,901</u>	<u>1,235,725</u>
Fund Balances			
Reserved for Encumbrances	104,715	45,455	150,170
Unreserved, Undesignated, Reported in:			
General Fund	1,085,109		1,085,109
Special Revenue Funds		446	446
Total Fund Balances	<u>\$1,189,824</u>	<u>\$45,901</u>	<u>\$1,235,725</u>

See accompanying notes to the financial statements.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	General Fund	All Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$1,210,417	\$466,540	\$1,676,957
Interest	41,423		41,423
Tuition and Fees	4,534	13,415	17,949
Extracurricular Activities	6,626		6,626
Contract Services	4,431,178		4,431,178
Miscellaneous	55,572	107,506	163,078
Total Receipts	5,749,750	587,461	6,337,211
Disbursements			
Current:			
Instruction			
Regular	133,340	83,161	216,501
Special	3,062,623	7,115	3,069,738
Support Services:			
Pupil	1,185,870	305	1,186,175
Instructional Staff	442,148	439,373	881,521
Board of Education	10,480		10,480
Administration	486,863	345	487,208
Fiscal	88,873		88,873
Business	892		892
Operation and Maintenance of Plant	924		924
Pupil Transportation	5,715	151,108	156,823
Central		19,295	19,295
Operation of Non-Instructional Services	5,709		5,709
Total Disbursements	5,423,437	700,702	6,124,139
Excess of Receipts Over/(Under) Disbursements	326,313	(113,241)	213,072
Other Financing Sources			
Other	7,045	5,452	12,497
Total Other Financing Sources	7,045	5,452	12,497
Net Change in Fund Balances	333,358	(107,789)	225,569
Fund Balances - Beginning of Year	856,466	153,690	1,010,156
Fund Balances - End of Year	\$1,189,824	\$45,901	\$1,235,725

See accompanying notes to the financial statements.

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$3,454,740
Investments	<u>6,508,670</u>
Total Assets	<u><u>9,963,410</u></u>
Net Assets	
Unrestricted	<u>9,963,410</u>
Total Net Assets	<u><u>\$9,963,410</u></u>

See accompanying notes to the financial statements.

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**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Allen County Educational Service Center (the Service 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 Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service 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.

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 of the Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Service Center. For the Service Center, this includes general operations and student related activities.

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

The Service Center is associated with three jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the Ohio Risk Sharing Authority, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 9 and 10 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 A., these financial statements are presented on a modified cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Service Center does not apply FASB statements issued after November 30, 1989.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following are the more significant of the Service Center's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

1. Government-Wide Financial Statements

The Statement of Net Assets-Modified Cash Basis and Statement of Activities-Modified Cash Basis display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Assets presents the financial condition of the governmental activities of the Service Center at year-end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions.

The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts.

2. Fund Financial Statements

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds.

The major fund of the financial reporting entity is described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which most governmental functions of the Service Center are financed. The following is the Service Center's major governmental fund:

General Fund - The General Fund is the primary operating fund and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

4. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures which are reported and defined in the supplemental information of this report.

D. Cash, Cash Equivalents and Investments

To improve cash management, all cash received by the Service Center is pooled in a central bank account except for the cash and investments related to the Allen County Health Care Benefit Fund for which the Service Center serves as fiscal agent. Monies for the remaining funds are maintained in this pool or temporarily used to purchase short term investments. Individual fund integrity is maintained through Service Center accounting records. Interest in the pool is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of financial reporting, 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 Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2006, investments were limited to money market accounts, premium interest-bearing accounts, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, Federal Home Loan Mortgage Bonds and STAROhio. These bonds and accounts are reported at cost.

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, 2006.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2006 were \$41,423, which included \$2,038 assigned from other funds.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

F. Accumulated Leave

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

G. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received.

H. Inventory and Prepaid Items

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Flow-Through Grants

The 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 Service Center has a financial or administrative role in the grants, the grants are reported as receipts and disbursements in a special revenue fund. For fiscal year 2006, this was the Preschool Grant.

J. Interfund Activity

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

K. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Equity Classifications

1. Government-Wide Statements

Equity is classified as net assets and displayed in separate components:

- a. **Restricted net assets** – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net assets restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes.
- b. **Unrestricted net assets** – All other net assets that do not meet the definition of “restricted.”

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. The Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances.

M. Receipts and Disbursements

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. The Service Center's program receipts are charges for service, operating and capital grants and contributions. All other governmental receipts are reported as general.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time.

4. DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings deposit accounts including but not limited to passbook savings accounts;
6. 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;
7. The State Treasurer's investment pool (STAROhio)
8. 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
9. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

A. Deposits

At June 30, 2006, the Service Center had \$100 in cash on hand. The carrying amount of the Service Center's deposits was \$4,474,585 and the bank balance was \$5,254,536. Custodial credit risk for deposits is the risk that in the event of bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of the bank balance, \$700,000 was covered by federal depository insurance and \$4,554,536 was collateralized but uninsured.

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

B. Investments

Investments are reported at cost. As of June 30, 2006, the Service Center's investments were as follows:

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

			Total	% of Maturities (at Cost)	
	Market Value	Cost		< 1 yr	1-5 yrs
Federal Home Loan Bank	\$ 746,483	\$ 750,000	11.15%	\$ 750,000	
Federal National Mortgage Assoc.	1,714,142	1,750,000	26.04%	1,250,000	\$ 500,000
Federal Home Loan Mortgage Corp.	1,233,812	1,252,947	18.63%	748,158	504,789
Federal Home Loan Bank Call Step	2,714,852	2,755,723	40.98%		2,755,723
STAROhio	215,780	215,780	3.20%	215,780	
Total	<u>\$6,625,069</u>	<u>\$6,724,450</u>	<u>100.00%</u>	<u>\$2,963,938</u>	<u>\$3,760,512</u>

C. Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Service Center's investment policy addresses interest rate risk by requiring that the Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

D. Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Center has no investment policy dealing with investment custodial risk beyond the requirement of ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from custodian by the treasurer, governing board, or qualified trustee."

Of the Service Center's investments, Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and STAROhio all have credit ratings of AAA with Standard and Poor's and are held by the investment's counterparty, and not in the name of the Service Center.

E. Concentration Risk

The Service Center places no limit on the amount the Service Center may invest in any one issuer. More than 5 percent of the Service Center's investments are in FHLB, FNMA, and FHLMC. These investments are 52.13 percent, 26.02 percent and 18.63 percent, respectively, of the Service Center's total investments for the amounts listed above.

5. PRIMARY RECEIPT SOURCES

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

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ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. PRIMARY RECEIPT SOURCES (Continued)

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

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

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

B. State Foundation Distributions

1. Amounts Paid by the Local School Districts

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement.

Each school district's per pupil amount is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contract services.

2. Amounts Paid under Contract by Local School Districts

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

6. RISK MANAGEMENT

A. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. RISK MANAGEMENT (Continued)

Property Insurance	\$ 264,404
Automobile Liability	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Errors and Omissions	1,000,000
Crime Coverage	50,000

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

The Service Center participates in the Schools of Ohio Risk Sharing Authority, a protected self-insurance pool which provides a formalized joint self insurance pool. Member contributions are based on actuarially determined rates and are allocated to a pool self insured layer, Reinsurance coverage for catastrophic losses, third party administrator to handle claims and administrative expenses. The third party administrator is Frank Gates Service Company.

B. Workers' Compensation

For fiscal year 2006, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its worker's 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 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 share equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the GRP.

C. Health Care Benefits

The Service 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 Service Center pays 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.

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 10, the Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The Health Benefit, life insurance and cafeteria 125 plans are administered by Allied Benefit Systems, Inc. In fiscal year 2006, the Service Center contributed \$4,115 to the life insurance plan and \$28,716 to the cafeteria 125 flexible plan.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. PENSION PLANS

A. State Teachers Retirement System

The Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement and disability benefits based on eligible service credit to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad St., Columbus, OH 43215-3771 or by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Upon termination of a reemployed member, or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary. The Service Center is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

7. PENSION PLANS (Continued)

The Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$308,789, \$292,396, and \$321,655, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent has been contributed for fiscal years 2005 and 2004. \$54,481 represents the unpaid contribution for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal year 2006 were \$8,621 made by the Service Center and \$17,097 made by the plan members.

B. School Employees Retirement System

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

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$65,997, \$57,260, and \$59,498 respectively. The Service Center has paid all contributions required through June 30, 2006.

8. POST-EMPLOYMENT BENEFITS

The Service Center provides comprehensive health care benefits to retirees who participated in the DB or Combined Plans 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). Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Service Center, this amount was \$23,753.

**EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2006, the minimum pay was established at \$35,800. 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. For the Service Center, the amount to fund health care benefits, including the surcharge, for fiscal year 2006 equaled \$30,270.

Healthcare benefits are financed on a pay-as-you-go basis. The target level for the health care fund is 150 percent of projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2006 were \$158,751,207. As of June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants eligible to receive benefits.

9. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative

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

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. During fiscal year 2006, the Service Center paid \$5,709 to NOACSC for various services. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS

B. West Central Regional Professional Development Center

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

The Center is governed by a fifty-two member board made up of representatives from the participating educational entities, the business community, and two institutions of higher learning. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained by contacting Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840-3087.

C. West Central Ohio Special Education Regional Resource Center (SERRC)

The SERRC is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents.

The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained by contacting Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

10. INSURANCE PURCHASING POOLS

A. Ohio Risk Sharing Authority

The Service Center participates in the Ohio Risk Sharing Authority (ORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. ORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services.

The ORSA's business and affairs are conducted by board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the ORSA and its members. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. INSURANCE PURCHASING POOLS

B. Ohio School Boards Association Workers' Compensation Group Rating Program

The Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan.

Each participant pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald and Company provides administrative, cost control and actuarial services to the Plan.

C. Allen County Schools Health Benefit Plan

The Service 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 Program 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 Trustees, Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

11. OPERATING LEASES

The Service Center was obligated under an operating lease agreement with the Board of County Commissioners, Allen County, Ohio for property. This agreement does not give rise to property rights. The lease originated on July 1, 2005 for a term of 60 months with monthly payments of \$12,917. Payments are made from the general fund and totaled \$124,000 for fiscal year 2006.

12. CONTINGENCIES

Grants

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2006.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental			\$1,210,417	
Interest			41,423	
Tuition and Fees			4,534	
Extracurricular Activities			6,626	
Customer Sales and Services			4,431,178	
Miscellaneous			55,571	
Total Receipts			<u>5,749,749</u>	
Disbursements				
Current:				
Instruction				
Regular	\$216,961	\$241,375	133,560	\$107,815
Special	3,489,090	3,694,460	3,067,715	626,745
Support Services:				
Pupil	1,380,543	1,502,416	1,228,065	274,351
Instructional Staff	550,556	567,502	442,555	124,947
Board of Education	11,496	35,016	10,948	24,068
Administration	439,421	879,707	499,660	380,047
Fiscal	96,817	104,449	92,409	12,040
Business	8,617	8,617	892	7,725
Operation and Maintenance of Plant	1,243	27,243	25,924	1,319
Pupil Transportation	25,786	25,786	20,715	5,071
Operation of Non-Instructional Services	3,130	9,130	5,709	3,421
Total Disbursements	<u>6,223,660</u>	<u>7,095,701</u>	<u>5,528,152</u>	<u>1,567,549</u>
Excess of Receipts Over (Under) Disbursements	<u>(\$6,223,660)</u>	<u>(\$7,095,701)</u>	221,597	<u>\$1,567,549</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures			<u>7,045</u>	
Total Other Financing Sources (Uses)			<u>7,045</u>	
Net Change in Fund Balances			228,642	
Fund Balances - Beginning of Year			818,132	
Prior Year Encumbrances Appropriated			<u>38,335</u>	
Fund Balances - End of Year			<u>\$1,085,109</u>	

See accompanying notes to the supplementary information.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2006**

BUDGETARY

A. BASIS OF BUDGETING

Basis of budgeting refers to when revenues and expenditures are recognized in the accounts. The Service Center recognizes transactions when cash is received or disbursed, or when a commitment has been recorded as an encumbrance against an applicable appropriation. Unencumbered fund balance is available for appropriation in the following fiscal year and therefore fund balances shown are unencumbered cash balances. This basis is utilized for all interim financial statements issued during the year.

Under the budget basis, expenditures are recognized when cash has been disbursed or when an encumbrance has been placed against an appropriation.

B. GENERAL BUDGET POLICIES

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as it does not have local tax levies. However, the Governing Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Governing Board does not budget revenues.

The primary level of budget control established by the Governing Board is at the fund level. Any budgetary modifications below this amount may be made by management. Any changes in the total appropriations of a fund must be approved by resolution of the Governing Board.

As part of budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the budget basis and reserves that portion of the applicable appropriation. Encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds.

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. Encumbrance appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Receipts, Disbursements and Change in Fund Balance - Budget and Actual for the General Fund is presented as supplemental information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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Mary Taylor, CPA

Auditor of State

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

Educational Service Center
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, (the Service Center) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated June 30, 2007 and 2006, wherein, we noted the Service Center uses a comprehensive basis of accounting other than generally accepted accounting principles.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Service Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

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**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Service Center's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses.

However, of the significant deficiencies described above, we believe finding number 2007-002 is also material weaknesses.

We also noted certain internal control matters that we reported to the Service Center's management in a separate letter dated May 12, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Service Center's management in a separate letter dated May 12, 2008.

The Service Center's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Service Center's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management and the Board of Education. We intend it for no one other than these specified parties



Mary Taylor, CPA
Auditor of State

May 12, 2008

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007 AND JUNE 30, 2006

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

FINDING NUMBER 2007-001

Noncompliance - Report Presentation

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

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

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

To help provide the users with more meaningful financial statements, the Service Center should prepare their financial statements according to generally accepted accounting principles.

Officials Response:

Due to financial restraints the Allen County ESC is unable to convert to the generally accepted accounting principles (GAAP). Conversion to GAAP would be an extremely expensive process. The Allen County ESC does utilize the Auditor of State's Uniform School Accounting System and respects the GAAP reporting requirements. However, GAAP reporting is a method of reporting liabilities and debts that the ESC does not incur. We do not own buildings, land or buses. Furthermore we do not pass levies or take out loans. Consequently, our financial status does not warrant the expense of converting to GAAP.

FINDING NUMBER 2007-002

Significant Deficiency - Bank to Book Reconciliation

The accounting records did not reconcile with the bank during any month of the audit period. Monthly reconciliations were out of balance in excess of \$425,000 throughout the audit period, with a discrepancy of about \$520,000 at June 30, 2007. The majority of this discrepancy is attributed to Health Care Benefit Program, Agency Fund, for which the Service Center acts as fiscal agent. The fund balance of the Health Care Benefit fund rather than the bank balance was being used when performing the book to bank reconciliations. In addition, the fund balance was not in agreement with the third party administrator of the Health Care Benefit Program. Net adjustments have been made to the Service Centers records in the amount of \$397,256 leaving a discrepancy of about \$120,000.

The failure to reconcile with both the bank and the third party administrator resulted in a fund balance that was overstated and not available for expenditure, and could result in undetected errors or irregularities.

**FINDING NUMBER 2007-002
(Continued)**

Monthly bank reconciliations should be performed and reconciled with the cash report and any discrepancies should be investigated. Reconciliations should be made utilizing the bank balances rather than the agency fund balance. It may also be beneficial to reconcile the Service Center funds and the Agency fund separately. When discrepancies are noted in the Agency fund reconciliation, the Service Center should determine whether the variances are timing errors related to when the administrator deducts from the bank and when the Service Center posts to the books.

The Service Center should also review the outstanding check list from the third party administrator for the health benefit plan checking account for accuracy and any unusual items and verify that both the administrator and the agency fund balance are in agreement with the bank.

Officials Response:

Progress has been made since the last audit between the agency fund and the third party administrator. During this audit review, recommendations were made that will further help the ESC resolve this issue. We still endeavor to comply with the activities outlined to come into compliance.

FINDING NUMBER 2007-003

Significant Deficiency - Accuracy of Financial Statement Compilation and Support

Presentation of financial statements is designed to provide an accurate accounting of the financial condition of the entity to the public. Part of the underlying support for financial statements is the trial balances. The trial balances are used as a tool to record the current year's cash activity for the respective line items. To accurately present the current year financial statements the reversing, cash transaction, adjusting entries, and prior year-end fund balance must be accurate and be recorded to the correct balance sheet or income/operating statement line item. Combined trial balances should be completed and supported by the individual fund trial balances. During the audit of the financial statements and the trial balances the following problems were noted:

- The trial balances did not agree to the fund financial statements presented in the client's compilation due to exclusion of the adjusting entries that were made to the compilation report. Adjustments were made to the trial balances in the amount of \$4,187,831 for 2007 and \$857,004 in 2006.
- A combined trial balance for Other Governmental Funds was not presented to consolidate the combining trials.
- Adjustments to the Statement of Activities were necessary for the proper presentation of program revenue. Reclassifications were made from general revenues to program revenues in the amounts of \$165,000 and \$163,000 for 2007 and 2006 respectively.
- Adjustments were made between cash and investments in the agency fund to properly reflect actual investments. Adjustments were made to the compilation trials to agree the agency funds with the reconciled bank balances in the amounts of \$1,429,000 and \$438,175 for 2007 and 2006 respectively.
- Prior period adjustments in the amount of \$421, 590 were made to the book balances of the agency funds to agree with reconciled bank balances.

**FINDING NUMBER 2007-003
(Continued)**

The incorrect reporting of balances and revenues impacted the financial position of the Service Center and could result in erroneous assumptions by users. Lack of effective oversight of the financial reporting and internal control process by those charged with governance resulted in material misstatements in the basic financial statements that were not initially identified by internal controls. In addition, the determination and rectification of these discrepancies by audit staff resulted in additional audit time and costs.

During the process of accumulating data for preparation of the trial balances and the compilation of financial statements, the information should be reviewed for accuracy and completeness. In addition, management should review the compilation to verify the accuracy and completeness of the financial statements and note disclosures, the trial balances, and supporting work papers. Procedures should be implemented for monitoring the results of the compilation to provide that it properly reflects the financial condition of the Service Center. Procedures should include reviews by the governing body and comparisons of the current year information with prior year information to identify problem areas. Supporting documentation for the compilation should also be reviewed to determine if it has been properly completed.

Official's Response:

There was a unique circumstance during this audit of fund reclassification that resulted in the revision of the financial statements. Upon that revision, proper review was not completed. In the future, review and approval of the financial statements will be done.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007 AND JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Ohio Rev. Code Section 117.38 Ohio Admin. Code 117-2-03(B) GAAP filing required.	No	Repeated as Finding 2007-001
2005-002	Bank to Book Reconciliation	No	Repeated as Finding 2007-002



Mary Taylor, CPA
Auditor of State

ALLEN COUNTY 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
JUNE 19, 2008**