



Dave Yost • Auditor of State

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio (the Service Center), as of and for the fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center, Allen County, Ohio, as of June 30, 2013 and 2012 and the respective changes in cash financial position thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter

Other Matters

Supplemental and Other Information

We audited to opine on the Service Center's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position, and governmental activities for 2013, and tables of net assets, changes in net assets, and governmental activities for 2012. Budgetary comparison schedules are presented for the General Fund and Bus Driver Training Program Fund for 2012. These tables and the schedules provide additional analysis and are not a required part of the basic financial statements.

These tables and the schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the financial statements. We subjected these tables and the schedules to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the tables and schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 20, 2014

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

The 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, 2013. 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 2013 are as follows:

- General Receipts accounted for \$863,934 or 11 percent of all receipts. Program specific receipts in the form of charges for services and sales, and operating grants and contributions accounted for \$6,734,510 or 89 percent of total receipts of \$7,598,444.
- In total, program disbursements were \$7,454,991.
- In total, net position increased \$143,453.

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 Position* and *Statement of Activities* provide information about the activities of the whole Service Center. 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 2013, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The 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 position 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 cash basis of accounting.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)
(Continued)

Reporting the Service Center as a Whole

Statement of Net Position 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 2013?" The Statement of Net Position and the Statement of Activities answer this question.

These two statements report the Service Center's *net position* and *changes in that position*. This change in net position 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 this change may be the result of many factors, some financial, some not.

In the Statement of Net Position and the Statement of Activities, Governmental Activities include all the Service Center's programs and services, including instruction and support services.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds – All 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 cash basis of accounting. 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 less 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 other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 15. 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)
(Continued)**

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net assets for fiscal year 2013 compared to 2012.

(Table 1)
Net Position – Cash Basis

	Governmental Activities	
	2013	2012
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 619,402	\$475,949
Total Assets	<u>1,027,619</u>	<u>475,949</u>
Net Position:		
Restricted for Other Purposes	151,976	149,479
Unrestricted	467,426	326,470
Total Net Position	<u>\$ 619,402</u>	<u>\$475,949</u>

Net position of the governmental activities increased \$143,453, which represents a 30 percent increase from fiscal year 2012. This is due to an increase in program receipts and a decrease in instruction and support services of the Service Center as a result of the timing difference of collections versus services provide to members.

A portion of the Service Center's net position, \$151,976, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$467,426 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal years 2013 as compared to fiscal year 2012.

(Table 2)
Changes in Net Position

	Governmental Activities	
	2013	2012
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 6,351,178	\$ 5,853,090
Operating Grants and Contributions	383,332	259,040
Total Program Receipts	<u>6,734,510</u>	<u>6,112,130</u>
General Receipts:		
Grants and Entitlements not Restricted to		
Specific Programs	806,999	922,547
Investment Earnings	497	1,160
Miscellaneous	56,438	61,358
Total General Receipts	<u>863,934</u>	<u>985,065</u>
Total Receipts	<u>7,598,444</u>	<u>7,097,195</u>

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)
(Continued)**

(Table 2)
**Changes in Net Position
(Continued)**

	Governmental Activities	
	2013	2012
Program Disbursements:		
Instruction:		
Regular	361,760	249,825
Special	2,964,808	3,231,521
Support Services:		
Pupils	2,504,161	2,512,774
Instructional Staff	609,730	640,602
Board of Education	13,246	15,989
Administration	611,823	644,738
Fiscal	183,453	181,967
Business	948	948
Operation and Maintenance of Plant		368
Pupil Transportation	201,971	169,300
Operation of Non-Instructional Services	3,091	833
 Total Program Disbursements	 7,454,991	 7,648,865
 Change in Net Assets	 143,453	 (551,670)
Net Assets Beginning of Year	475,949	1,027,619
 Net Assets End of Year	 \$619,402	 \$475,949

Increased charges for services and sales reflect increased demand for special education services at Allen County Educational Service Center, including speech, multiple disabilities and physical therapy services. Also, unrestricted grants decreased due to state cuts.

Governmental Activities

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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)
(Continued)**

**(Table 3)
Governmental Activities**

	Total Costs of Services		Net Costs of Services	
	2013	2012	2013	2012
Program Disbursements:				
Instruction:				
Regular	\$361,760	\$249,825	\$296,197	\$205,290
Special	2,964,808	3,231,521	(169,973)	320,166
Support Services:				
Pupil	2,504,161	2,512,774	399,196	612,995
Instructional Staff	609,730	640,602	(115,704)	46,865
Board of Education	13,246	15,989	13,246	15,989
Administration	611,823	644,738	97,533	157,285
Fiscal	183,453	181,967	183,453	181,967
Business	948	948	948	948
Operation and Maintenance of Plant		368		368
Pupil Transportation	201,971	169,300	20,046	(5,971)
Operation of Non-Instructional Services	3,091	833	(4,461)	833
Total	\$7,454,991	\$7,648,865	\$720,481	\$1,536,735

Program receipts account for 90 percent of total governmental disbursements, the most significant of which is tuition and fees (charges for services and sales). The Service Center's dependence on tuition and fees and unrestricted grants is evident.

The Service Center's Funds

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of \$619,402, which is greater than the prior year balance of \$475,949.

The general fund had total cash receipts of \$7,138,042. The cash disbursements of the general fund totaled \$7,023,648. The general fund's fund balance increased \$114,394 in fiscal year 2013. The increase in fund balance can be attributed to an decrease in disbursements, coupled with an increase in contract services receipts.

The Bus Driving Training Fund had total cash receipts of \$181,924 and total cash disbursements of \$193,521, for a decrease in fund balance of \$11,597. The decrease was due to the costs associated with training bus drivers exceeding receipts.

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 State Foundation Program, grants and contracts secured with the local school districts. The State Foundation Program was adjusted for the 2011-2012 school year to help schools through our economy crisis. What will happen in the future remains a concern. The Service Center anticipates a fifteen percent cut in fiscal year 2014.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)
(Continued)**

The Service Center's largest receipt stream is the contracts secured with the local schools for the services offered. The Service Center is like any other business: 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.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff 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, OH 45801-3309.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$619,402
Total Assets	<u>619,402</u>
Net Position:	
Restricted for Other Purposes	151,976
Unrestricted	<u>467,426</u>
Total Net Postion	<u><u>\$619,402</u></u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$361,760		\$65,563	(\$296,197)
Special	2,964,808	\$3,134,781		169,973
Support Services:				
Pupil	2,504,161	2,104,965		(399,196)
Instructional Staff	609,730	512,531	212,903	115,704
Board of Education	13,246			(13,246)
Administration	611,823	514,290		(97,533)
Fiscal	183,453			(183,453)
Business	948			(948)
Pupil Transportation	201,971	77,059	104,866	(20,046)
Operation of Non-Instructional Services	3,091	7,552		4,461
Total Governmental Activities	\$7,454,991	\$6,351,178	\$383,332	(720,481)
General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				806,999
Interest				497
Miscellaneous				56,438
Total General Receipts				863,934
Change in Net Postion				143,453
Net Position - Beginning of Year				475,949
Net Postion - End of Year				\$619,402

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$467,426	\$114,713	\$37,263	\$619,402
Total Assets	<u>467,426</u>	<u>114,713</u>	<u>37,263</u>	<u>619,402</u>
Fund Balances:				
Restricted		114,713	37,263	151,976
Assigned	467,426			467,426
Total Fund Balances	<u>\$467,426</u>	<u>\$114,713</u>	<u>\$37,263</u>	<u>\$619,402</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Intergovernmental	\$806,999	\$104,866	\$181,466	\$1,093,331
Interest	497			497
Tuition and Fees	65,358	77,058		142,416
Extracurricular Activities	7,491			7,491
Contract Services	6,201,270			6,201,270
Gifts and Donations			97,000	97,000
Miscellaneous	56,427		12	56,439
Total Receipts	<u>7,138,042</u>	<u>181,924</u>	<u>278,478</u>	<u>7,598,444</u>
Disbursements:				
Current:				
Instruction:				
Regular	296,197		65,563	361,760
Special	2,964,808			2,964,808
Support Services:				
Pupil	2,504,161			2,504,161
Instructional Staff	437,471		172,259	609,730
Board of Education	13,246			13,246
Administration	611,823			611,823
Fiscal	183,453			183,453
Business	948			948
Pupil Transportation	8,450	193,521		201,971
Operation of Non-Instructional Services	3,091			3,091
Total Disbursements	<u>7,023,648</u>	<u>193,521</u>	<u>237,822</u>	<u>7,454,991</u>
Excess of Receipts Over/(Under) Disbursements	<u>114,394</u>	<u>(11,597)</u>	<u>40,656</u>	<u>143,453</u>
Net Change in Fund Balances	114,394	(11,597)	40,656	143,453
Fund Balances - Beginning of Year	<u>353,032</u>	<u>126,310</u>	<u>(3,393)</u>	<u>475,949</u>
Fund Balances - End of Year	<u>\$467,426</u>	<u>\$114,713</u>	<u>\$37,263</u>	<u>\$619,402</u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS - FIDUCIARY FUND
JUNE 30, 2013

	<u>Agency</u>
Assets:	
Equity Pooled in Cash and Cash Equivalents	\$9,676,540
Total Assets	<u>9,676,540</u>
Net Postion:	
Held in Trust for:	
Others	34,081
Pool Participants	9,642,459
Total Net Postion	<u>\$9,676,540</u>

See accompanying notes to the basic financial statements.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. DESCRIPTION OF THE SERVICE CENTER 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 governing board (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.

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 one jointly governed organization and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, 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 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 cash basis of accounting. 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 GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of this 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 Position-Cash Basis and Statement of Activities-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 Position 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 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.

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

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which all 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.

Bus Driver Training Program Fund - The Bus Driver Training Program Fund accounts for the resources to pay for training services to educate various school district bus drivers.

The other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe imposed constraints imposed by the use of the resources.

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 Service Center'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 to assist them in fiscal accountability.

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 Schools' Health Benefit Plan 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 which are not purchased from pooled monies are reported as investments.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013, investments were limited to STAR Ohio, STAR Plus, Federal Agency securities, and US Treasury Money Market Funds.

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 operated 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, 2013.

The Service Center also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2013 were \$497, which included \$112 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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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 2013, these funds include 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 position** – Consists of net position 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 position restricted for other purposes include resources restricted by federal and state grants to be expended for specified purposes. The Service Center did not have net position restricted by enabling legislation.
- b. Unrestricted net position** – Net position that does not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net assets are available.

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is divided into five classifications based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- a. **Non-spendable** - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. **Restricted** - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. **Committed** - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. **Assigned** - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.
- e. **Unassigned** - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

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. As described further in Note 5, the Service Center's program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

3. 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 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificate of deposits or savings deposits 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;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio and STAR Plus)
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

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. 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.

At June 30, 2013, the carrying amount of the Service Center's deposits was \$6,654,210 and the bank balance was \$6,919,574. 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, \$4,651,192 was covered by federal depository insurance, including \$3,902,698 held in a STAR Plus account, and \$2,268,382 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

All investments are reported at cost. As of June 30, 2013, the Service Center's investments were as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

	<u>Cost</u>	<u>Maturities (at Cost)</u>		<u>Percentage Of Total</u>
		<u>< 1 yr</u>	<u>1-5 yrs</u>	
Federal Home Loan Bank	\$ 195,025		\$195,025	5.35%
Federal National Mortgage	200,195		200,195	5.50%
Federal Home Loan Mortgage	205,025		205,025	5.63%
Money Market Funds	2,051	\$2,051		0.06%
STAR Ohio	3,039,436	3,039,436		83.46%
Total	<u>\$3,641,732</u>	<u>\$3,041,487</u>	<u>\$600,245</u>	<u>100.00%</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.

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2013 is 58 days.

D. Custodial 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."

E. Credit Risk

The U.S. Treasury Money Market carries a rating of AAAM by Standard and Poor's. The Federal Agency Securities carry a rating of Aaa by Moody's. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carried a rating of AAAM by Standard and Poor's. All investments are held by the investment's counterparty and not in the name of the Service Center.

F. Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center's investments are summarized above.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

4. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2013, the School District implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This was incorporated in the School District's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

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 average daily membership (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 intergovernmental receipts.

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 ADM 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.

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5. PRIMARY RECEIPT SOURCES (Continued)

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 2011, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

Property Insurance	\$2,235,012
Automobile Liability	12,000,000
General Liability	
Per occurrence	12,000,000
Total per year	14,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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 Ohio School 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 2013, 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 & Co. provides administrative, cost control and actuarial services to the GRP.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

6. RISK MANAGEMENT (Continued)

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 CBA Benefit Services and Allied Benefit Systems, Inc. In fiscal year 2013, the Service Center contributed \$2,381 to the life insurance plan and \$25,173 to the cafeteria 125 flexible plan.

7. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Service Center contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources under Employers/Audit Resources.

Funding Policy - 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 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 2013, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations and death benefits to SERS for the fiscal year ended June 30, 2013, 2012 and 2011 were \$120,831, \$133,876 and \$114,095 respectively; 85 percent has been contributed for fiscal year 2013 and 100 percent for the fiscal years 2012 and 2011.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

7. PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description - The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB Plan portion of the Combined Plan payment is payable to a member on or after age sixty; the DB Plan portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. 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, 2013, 2012, and 2011 were \$521,495, \$520,762 and \$516,884, respectively; 84 percent has been contributed for 2013 and 100 percent has been contributed for fiscal years 2012 and 2011, respectively. Contributions to the DC and Combined Plans for fiscal year 2013 were \$22,072 made by the Service Center and \$30,900 made by the plan members.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

7. PENSION PLANS (Continued)

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, 2013, no members of the Board have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

8. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Service Center participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's Medicare Advantage and traditional indemnity plans. A prescription drug plan 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 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 monthly premium for calendar year 2012 (the latest information available) was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, .16 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefits plans. 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. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected the number of qualified years of service, Medicare eligibility and retirement status.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

The Service Center's contributions for health care (including surcharge) for fiscal years ended June 30, 2013, 2012, and 2011 were \$12,207, \$21,159, and \$48,820, respectively, 85 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$6,826, \$7,906, and \$7,342, respectively; 85 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description - The Service Center contributes to the cost sharing multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888)227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$40,115, \$40,059, and \$39,760, respectively; 84 percent has been contributed for fiscal year 2013 and fiscal years 2012 and 2011.

9. JOINTLY GOVERNED ORGANIZATION

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, 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. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

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.

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. 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 & 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 and American Fidelity and Grossman Consulting concerning aspects of the administration of the Trust. Financial information can be obtained from Brian Rockhold, who serves as Chairman, at the Allen County Educational Service Center, 1920 Slabtown Rd, Lima, Ohio 45804.

11. OPERATING LEASES

The Service Center is 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, 2009 for a term of 60 months with monthly payments of \$9,771. Payments are made from the General Fund and totaled \$117,252 for fiscal year 2013.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

12. CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2013, if applicable, cannot be determined at this time.

B. Litigation

The Service Center is not party to any claims or lawsuits that would, in the Service Center's opinion, have a material effect on the basic financial statements.

13. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Bus Driver Training Program Fund	Other Governmental	Total Governmental
Restricted for:				
Other Purposes		\$114,713	\$37,263	\$151,976
Assigned to:				
Support Services	\$15,164			15,164
Instruction	1,804			1,804
Non-instructional Services	205			205
Sub-sequent Year Appropriations	450,253			450,253
Total Assigned	467,426			467,426
Total Fund Balance	\$467,426	\$114,713	\$37,263	\$619,402

14. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2013, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 2012 are as follows:

- General Receipts accounted for \$985,065 or 14 percent of all receipts. Program specific receipts in the form of charges for services and sales and grants and contributions accounted for \$6,112,130 or 86 percent of total receipts of \$7,097,195.
- In total, program disbursements were \$7,648,865.
- In total, net assets increased \$551,670.

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. 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 2012, the General Fund and Bus Driver Training Program Fund are the Service Center's most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on a cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The 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 cash basis of accounting.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 2012?" 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, some financial, some not.

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.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 39. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the General Fund and the Bus Driver Training Program Fund.

Governmental Funds – All 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 cash basis of accounting. 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 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 other governmental units. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in a separate 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net assets for fiscal year 2012 compared to 2011.

**(Table 1)
Net Assets – Cash Basis**

	Governmental Activities	
	2012	2011
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$475,949	\$1,027,619
Total Assets	<u>475,949</u>	<u>1,027,619</u>
Net Assets:		
Restricted for Other Purposes	149,479	198,870
Unrestricted	326,470	828,749
Total Net Assets	<u>\$475,949</u>	<u>\$1,027,619</u>

Net assets of the governmental activities increased \$551,670, which represents a 54 percent decrease from fiscal year 2011. This is due to a decrease in program and general receipts and an increase in instruction and support services of the Service Center.

A portion of the Service Center's net assets, \$149,479, represent resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net assets of \$326,470 may be used to meet the Service Center's ongoing obligations.

Table 2 shows the changes in net assets for fiscal years 2012 as compared to fiscal year 2011.

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

	Governmental Activities	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$5,853,090	\$6,286,278
Operating Grants and Contributions	259,040	311,274
Total Program Receipts	<u>6,112,130</u>	<u>6,597,552</u>
General Receipts:		
Grants and Entitlements not Restricted to Specific Programs	922,547	1,080,972
Investment Earnings	1,160	2,368
Miscellaneous	61,358	56,467
Total General Receipts	<u>985,065</u>	<u>1,139,807</u>
Total Receipts	<u>7,097,195</u>	<u>7,737,359</u>

(Continued)

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

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

	Governmental Activities	
	2012	2011
Program Disbursements:		
Instruction:		
Regular	249,825	255,534
Special	3,231,521	3,316,557
Support Services:		
Pupils	2,512,774	2,359,168
Instructional Staff	640,602	627,653
Board of Education	15,989	14,505
Administration	644,738	628,462
Fiscal	181,967	182,575
Business	948	948
Operation and Maintenance of Plant	368	367
Pupil Transportation	169,300	134,018
Operation of Non-Instructional Services	833	438
Central		4,200
Total Program Disbursements	7,648,865	7,524,425
Change in Net Assets	(551,670)	212,934
Net Assets Beginning of Year	1,027,619	814,685
Net Assets End of Year	\$475,949	\$1,027,619

Decreased charges for services reflect decreased demand for special education services at Allen County Educational Service Center.

Governmental Activities

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**

	Total Costs of Services		Net Costs of Services	
	2012	2011	2012	2011
Program Disbursements:				
Instruction:				
Regular	\$ 249,825	\$ 255,535	\$ 205,290	\$ 201,000
Special	3,231,521	3,316,557	320,166	107,979
Support Services:				
Pupil	2,512,774	2,359,168	612,995	287,679
Instructional Staff	640,602	627,653	46,865	91,694
Board of Education	15,989	14,505	15,989	14,505
Administration	644,738	628,462	157,285	83,122

(Continued)

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

**(Table 3)
Governmental Activities
(Continued)**

	Total Costs of Services		Net Costs of Services	
	2012	2011	2012	2011
Program Disbursements: (Cont'd.)				
Instruction: (Cont'd.)				
Fiscal	181,967	182,575	181,967	182,575
Business	948	948	948	948
Operation and Maintenance of Plant	368	367	368	367
Pupil Transportation	169,300	134,018	(5,971)	(44,634)
Central		4,200		1,200
Operation of Non-Instructional Services	833	438	833	438
Total	\$7,648,865	\$7,524,426	\$1,536,735	\$926,873

Program receipts account for 80 percent of total governmental disbursements, the most significant of which is contracted services. The Service Center's dependence on contract services and unrestricted grants is evident.

The Service Center's Funds

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of \$475,949, which is lower than the prior year balance of \$1,027,619.

The general fund had total cash receipts of \$6,767,422. The cash disbursements of the general fund totaled \$7,243,139. The general fund's fund balance decreased \$475,717 in fiscal year 2012. The decrease in fund balance can be attributed to an increase in disbursements, coupled with a decrease in total receipts.

The Bus Driving Training Fund had total cash receipts of \$175,595 and total cash disbursements of \$169,300, for an increase in fund balance of \$6,295.

General Fund Budgeting Highlights

The Service Center is not required to follow the budgetary provisions set forth in Ohio Rev. Code Section 5705 as the Service Center does not have local tax levies financing its operation. However, the Board of Education annually adopts an expenditure budget, which sets the spending authority, or appropriations, for each fund for the ensuing fiscal year, and is set at the fund level. Revenues are not budgeted by the Board.

During the course of fiscal year 2012, the Service Center did not significantly modify its General Fund appropriations. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, actual disbursements on the budget basis (cash outlays plus encumbrances) for fiscal year 2012 were \$7.3 million, approximately \$328,000 less than what was budgeted during the year. Management's efforts to contain operating costs explain why the full appropriation amount was not utilized.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

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 State Foundation Program, grants and contracts secured with the local school districts. The State Foundation Program was decreased for the 2011-2012 school year to help schools through our economy crisis. What will happen in the future remains a concern. The Service Center anticipates a fifteen percent cut in fiscal year 2013.

The Service Center's largest receipt stream is the contracts secured with the local schools for 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.

All scenarios require management to plan carefully and prudently to provide the resources to meet student and staff 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, OH 45801-3309.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$475,949
Total Assets	<u>475,949</u>
Net Assets:	
Restricted for Other Purposes	149,479
Unrestricted	<u>326,470</u>
Total Net Assets	<u><u>\$475,949</u></u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$249,825		\$44,535	(\$205,290)
Special	3,231,521	\$2,911,355		(320,166)
Support Services:				
Pupil	2,512,774	1,899,779		(612,995)
Instructional Staff	640,602	484,098	109,639	(46,865)
Board of Education	15,989			(15,989)
Administration	644,738	487,453		(157,285)
Fiscal	181,967			(181,967)
Business	948			(948)
Operation and Maintenance of Plant	368			(368)
Pupil Transportation	169,300	70,405	104,866	5,971
Operation of Non-Instructional Services	833			(833)
Total Governmental Activities	\$7,648,865	\$5,853,090	\$259,040	(1,536,735)
General Receipts:				
Grants and Entitlements not Restricted to Specific Programs				922,547
Interest				1,160
Miscellaneous				61,358
Total General Receipts				985,065
Change in Net Assets				(551,670)
Net Assets - Beginning of Year				1,027,619
Net Assets - End of Year				\$475,949

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$353,032	\$126,310	(\$3,393)	\$475,949
Total Assets	<u>353,032</u>	<u>126,310</u>	<u>(3,393)</u>	<u>475,949</u>
Fund Balances:				
Restricted		126,310	23,169	149,479
Assigned	353,032			353,032
Unassigned			(26,562)	(26,562)
Total Fund Balances	<u>\$353,032</u>	<u>\$126,310</u>	<u>(\$3,393)</u>	<u>\$475,949</u>

See accompanying notes to the basic financial statements.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Bus Driver Training Program Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Intergovernmental	\$922,543	\$104,866	\$107,175	\$1,134,584
Interest	1,160			1,160
Tuition and Fees	56,756	70,729		127,485
Extracurricular Activities	883			883
Contract Services	5,724,722			5,724,722
Gifts and Donations			47,000	47,000
Miscellaneous	61,358		3	61,361
Total Receipts	<u>6,767,422</u>	<u>175,595</u>	<u>154,178</u>	<u>7,097,195</u>
Disbursements:				
Current:				
Instruction:				
Regular	210,372		39,453	249,825
Special	3,230,255		1,266	3,231,521
Support Services:				
Pupil	2,512,774			2,512,774
Instructional Staff	446,995		193,607	640,602
Board of Education	15,989			15,989
Administration	642,638		2,100	644,738
Fiscal	181,967			181,967
Business	948			948
Operation and Maintenance of Plant	368			368
Pupil Transportation		169,300		169,300
Operation of Non-Instructional Services	833			833
Total Disbursements	<u>7,243,139</u>	<u>169,300</u>	<u>236,426</u>	<u>7,648,865</u>
Excess of Receipts Over/(Under) Disbursements	<u>(475,717)</u>	<u>6,295</u>	<u>(82,248)</u>	<u>(551,670)</u>
Net Change in Fund Balances	(475,717)	6,295	(82,248)	(551,670)
Fund Balances - Beginning of Year	<u>828,749</u>	<u>120,015</u>	<u>78,855</u>	<u>1,027,619</u>
Fund Balances - End of Year	<u>\$353,032</u>	<u>\$126,310</u>	<u>(\$3,393)</u>	<u>\$475,949</u>

See accompanying notes to the basic financial statements.

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS - FIDUCIARY FUND
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Equity Pooled in Cash and Cash Equivalents	<u>\$5,935,322</u>
Total Assets	<u>5,935,322</u>
Net Assets:	
Held in Trust for:	
Others	44,915
Pool Participants	<u>5,890,407</u>
Total Net Assets	<u><u>\$5,935,322</u></u>

See accompanying notes to the basic financial statements.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SERVICE CENTER 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 governing board (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.

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 one jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, 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 8 and 9 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 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 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 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. Following are the more significant of the Service Center's accounting policies.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow GAAP, the Service Center chooses to prepare its financial statements and notes in accordance with the 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 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-Cash Basis and Statement of Activities-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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 funds.

The funds of the financial reporting entity are described below:

3. Governmental Funds/Governmental Activities

Governmental funds are those through which all 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.

Bus Driver Training Program Fund - The Bus Driver Training Program accounts for the resources to pay for training services to educate various school district bus drivers.

The other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe imposed constraints.

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 Service Center'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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 Schools' Health Benefit Plan 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 which are not purchased from pooled monies 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 2012, investments were limited to STAROhio, Federal Agency securities, and US Treasury Money Market Funds.

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 operated 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, 2012.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2012 were \$1,160, which included \$290 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 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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 2012, these funds include 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~~ 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 6 and 7, 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:

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. The Service Center did not have any assets restricted by enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted.” The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net assets are available.

2. Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is divided into five classifications based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- a. Non-spendable** – The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed** – The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. The committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned** – Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board. The Board of Education has by resolution authorized the treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when subsequent year’s appropriated budget.
- e. Unassigned** – Unassigned fund balance is the residual classification of the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Service Center first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be found.

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. As described further in Note 4, the Service Center’s program receipts are charges for service and operating grants and contributions. All other governmental receipts are reported as general.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

3. 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 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificate 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)

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(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Service Center cash deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. 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.

At June 30, 2012, the carrying amount of the Service Center's deposits was \$4,912,045 and the bank balance was \$5,220,878. 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, \$1,524,741 was covered by federal depository insurance and \$3,696,137 was collateralized but uninsured with securities held by the pledging institution's trust department not in the Service Center's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

All investments are reported at cost. As of June 30, 2013, the Service Center's investments were as follows:

	Cost	Maturities (at Cost)		Percentage Of Total
		< 1 yr	1-5 yrs	
Federal Home Loan Bank	\$ 198,007	\$198,007		13.21%
Federal National Mortgage	400,327		\$400,327	26.70%
Money Market Funds	7,295	7,295		0.49%
STAR Ohio	893,597	893,597		59.60%
Total	<u>\$1,499,226</u>	<u>\$1,098,899</u>	<u>\$400,327</u>	<u>100.00%</u>

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(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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.

STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012 is 53 days.

D. Custodial 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."

E. Credit Risk

The U.S. Treasury Money Market carries a AAAM rating by Standard and Poor's and the Federal Agency Securities carry a rating of Aaa rating by Moody's. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carried a rating of AAAM by Standard and Poor's. All investments are held by the investment's counterparty and not in the name of the Service Center.

F. Concentration Risk

The Service Center places no limit on the amount the district may invest in any one issuer. The Service Center's investments are summarized above.

4. 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 Service Centers.

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(Continued)**

4. PRIMARY RECEIPT SOURCES

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 average daily membership (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 intergovernmental receipts.

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 ADM 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.

5. 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 2012, the Service Center contracted for the following insurance coverage through Ohio School Risk Sharing Authority:

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5. RISK MANAGEMENT (Continued)

Property Insurance	\$2,235,012
Automobile Liability	12,000,000
General Liability	
Per occurrence	12,000,000
Total per year	14,000,000
Errors and Omissions	1,000,000
Crime Cover	100,000

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 Ohio School 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 2012, the Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). 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 & Co. 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 9, 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 CBA Benefit Services and Allied Benefit Systems, Inc. In fiscal year 2012, the Service Center contributed \$2,781 to the life insurance plan and \$35,600 to the cafeteria 125 flexible plan.

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(Continued)**

6. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Service Center contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - 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 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 healthcare benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$133,876, \$114,095 and \$121,528, respectively; 90 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description - The Service Center participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB Plan portion of the Combined Plan payment is payable to a member on or after age sixty; the DB Plan portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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(Continued)**

6. PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the 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.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions.

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, 2012, 2011, and 2010 were \$520,762, \$516,884, and \$521,143, respectively; 88 percent has been contributed for 2012 and 100 percent has been contributed for fiscal years 2011 and 2010, respectively. Contributions to the DC and Combined Plans for fiscal year 2012 were \$24,870 made by the Service Center and \$17,764 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, 2010, no members of the Board have elected Social Security. The Board's liability would be 6.2 percent of wages paid.

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The Service Center participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's Medicare Advantage and traditional indemnity plans. A prescription drug plan 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 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 monthly premium for calendar year 2012 (the latest information available) was

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(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

\$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge.

For fiscal year 2012, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefits plans. 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. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected the number of qualified years of service, Medicare eligibility and retirement status.

The Service Center's contributions for health care (including surcharge) for fiscal years ended June 30, 2012, 2011, and 2010 were \$20,632, \$48,820, and \$35,134, respectively, 90 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,906, \$7,342, and \$7,227, respectively; 90 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description – The Service Center contributes to the cost sharing, multiple-employer defined benefit Health Plan (the Plan) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Service Center's contributions for healthcare for the fiscal years ended June 30, 2012, 2011, and 2010 were \$40,059, \$39,760, and \$40,088, respectively; 88 percent has been contributed for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010.

8. JOINTLY GOVERNED ORGANIZATION

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, 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. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

9. 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.

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. 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. INSURANCE PURCHASING POOLS (Continued)

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 & 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, and Allied Benefit Systems Inc., concerning aspects of the administration of the Trust. Financial information can be obtained from Brian Rockhold, who serves as Chairman, at the Allen County Educational Service Center, 1920 Slabtown Rd, Lima, Ohio 45804.

10. OPERATING LEASES

The Service Center is 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, 2009 for a term of 60 months with monthly payments of \$9,771. Payments are made from the general fund and totaled \$117,252 for fiscal year 2012.

11. CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The Service Center is not party to any claims or lawsuits that would, in the Service Center's opinion, have a material effect on the basic financial statements.

12. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

12. FUND BALANCE (Continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Bus Driver Training Program Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Restricted for:				
Other Purposes		\$126,310	\$23,169	\$149,479
Assigned to:				
Support Services	\$19,204			19,204
Instruction	6,704			6,704
Non-instructional Services	77			77
Subsequent Year Appropriations	327,047			327,047
Total Assigned	353,032			353,032
Unassigned			(26,562)	(26,562)
Total Fund Balance	<u>\$353,032</u>	<u>\$126,310</u>	<u>(\$3,393)</u>	<u>\$475,949</u>

13. ACCOUNTABILITY AND COMPLIANCE

Ohio Administrative Code Section 117-2-03 requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2012, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

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**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>			Positive (Negative) Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
Intergovernmental			\$922,543	
Interest			1,160	
Tuition and Fees			56,756	
Extracurricular Activities			883	
Contract Services			5,724,722	
Miscellaneous			53,475	
Total Receipts			<u>6,759,539</u>	
Disbursements:				
Current:				
Instruction:				
Regular	\$224,039	\$226,373	210,548	\$15,825
Special	3,379,486	3,457,840	3,236,824	221,016
Support Services:				
Pupil	2,274,518	2,537,641	2,514,319	23,322
Instructional Staff	475,697	479,109	448,487	30,622
Board of Education	18,842	20,695	16,507	4,188
Administration	645,087	668,953	643,272	25,681
Fiscal	181,262	192,673	186,941	5,732
Business	1,000	1,000	948	52
Operation and Maintenance of Plant	400	400	368	32
Pupil Transportation	8,600	10,000	10,000	
Operation of Non-Instructional Services	2,630	2,630	910	1,720
Total Disbursements	<u>\$7,211,561</u>	<u>\$7,597,314</u>	<u>7,269,124</u>	<u>\$328,190</u>
Excess of Receipts Over (Under) Disbursements			<u>(509,585)</u>	
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements			7,883	
Total Other Financing Sources (Uses)			<u>7,883</u>	
Net Change in Fund Balance			(501,702)	
Fund Balance - Beginning of Year			789,849	
Prior Year Encumbrances Appropriated			<u>38,900</u>	
Fund Balance - End of Year			<u>\$327,047</u>	

See accompanying notes to the budgetary comparison schedules.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**BUDGETARY COMPARISON SCHEDULE
BUS DRIVER TRAINING PROGRAM FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Positive (Negative) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Intergovernmental			\$104,866	
Contracted Services			36,925	
Miscellaneous			33,804	
Total Receipts			<u>175,595</u>	
Disbursements:				
Current:				
Support Services:				
Instructional Staff	\$278,478	\$278,479	185,650	\$92,829
Total Disbursements	<u>\$278,478</u>	<u>\$278,479</u>	<u>185,650</u>	<u>\$92,829</u>
Excess of Receipts (Under) Disbursements			<u>(10,055)</u>	
Net Change in Fund Balance			(10,055)	
Fund Balance - Beginning of Year			87,287	
Prior Year Encumbrances Appropriated			<u>32,728</u>	
Fund Balance - End of Year			<u>\$109,960</u>	

See accompanying notes to the budgetary comparison schedule.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 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.

NOTE 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 Board annually adopts an expenditure budget which sets the spending authority, or appropriations, for each fund for the ensuing year. The Board does not budget receipts.

The primary level of budget control established by the 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 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 re-appropriated.

The budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Budgetary Comparison Schedules for the General Fund and Bus Driver Training Program Fund are presented as supplementary information on the budgetary basis to provide a meaningful comparison of actual results with the budget.

NOTE C – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Budgetary Comparison Schedules presented for the General Fund and Bus Driver Training Program Fund are prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is that outstanding year end encumbrances are treated as expenditures (budget basis) rather than as an assigned or restricted fund balance (cash basis).

The adjustment necessary to convert the results of operations for the year on the budget basis to the cash basis are as follows:

The adjustment necessary to convert the results of operations for the year on the budget basis to the cash basis are as follows:

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

NOTE C – BUDGETARY BASIS OF ACCOUNTING (Continued)

	Net Change in Fund Balance	
	General Fund	Bus Driver Training Program Fund
Budget basis	(\$501,702)	(\$10,055)
Adjustment for encumbrances	25,985	16,350
Cash basis	(\$475,717)	\$ 6,295



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Allen County Educational Service Center (the Service Center) as of and for the fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated February 20, 2014 wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Service Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Service Center's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Service Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 20, 2014

ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2013 AND JUNE 30, 2012

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

FINDING NUMBER 2013-001

Noncompliance Citation

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

Ohio Adm. Code Section 117-2-03(B) requires educational service centers to file annual financial reports in accordance with generally accepted accounting principles (GAAP). The Service Center prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Service Center should prepare and file annual financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements.

OFFICIALS RESPONSE:

Due to financial constraints 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.

**ALLEN COUNTY EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013 AND JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2011-01	Ohio Rev. Code Sec. 117.28 and Ohio Admin. Code Sec. 117-02-03 (B) – Failed to file financial statements in accordance with generally accepted accounting principles (GAAP)	No	Repeated as Finding 2013-001



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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
MARCH 25, 2014