



**Auditor of State  
Betty Montgomery**



EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

TABLE OF CONTENTS

| <u>TITLE</u>   | <u>PAGE</u> |
|--|-------------|
| Independent Accountants' Report.....   | 1           |
| Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2005.....  | 3           |
| <b>Basic Financial Statements For the Fiscal Year Ended June 30, 2005:</b>   |             |
| Government-wide Financial Statements - For the Fiscal Year Ended June 30, 2005:  |             |
| Statement of Net Assets – Modified Cash Basis.....   | 9           |
| Statement of Activities – Modified Cash Basis.....   | 10          |
| Fund Financial Statements - For the Fiscal Year Ended June 30, 2005:   |             |
| Statement of Assets and Fund Balances - Modified Cash Basis – Governmental Funds.....  | 11          |
| Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances –<br>Modified Cash Basis - Governmental Funds.....           | 12          |
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Cash<br>Balance - Budget and Actual – Budget Basis - General Fund..... | 13          |
| Statement of Fiduciary Net Assets – Modified Cash Basis - Fiduciary Funds.....   | 14          |
| Notes to the Basic Financial Statements.....   | 15          |
| Management's Discussion and Analysis for the Fiscal Year Ended June 30, 2004.....  | 31          |
| <b>Basic Financial Statements For the Fiscal Year Ended June 30, 2004:</b>   |             |
| Government-wide Financial Statements - For the Fiscal Year Ended June 30, 2004:  |             |
| Statement of Net Assets – Modified Cash Basis.....   | 37          |
| Statement of Activities – Modified Cash Basis.....   | 38          |
| Fund Financial Statements - For the Fiscal Year Ended June 30, 2004:   |             |
| Statement of Assets and Fund Balances - Modified Cash Basis – Governmental Funds.....  | 39          |
| Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances –<br>Modified Cash Basis - Governmental Funds.....           | 40          |

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

TABLE OF CONTENTS  
(Continued)

| <b>TITLE</b>   | <b>PAGE</b> |
|--|-------------|
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance<br>- Budget and Actual – Budget Basis - General Fund .....   | 41          |
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance<br>- Budget and Actual – Budget Basis –<br>Science Enhancement for Science Advancement (SESA) Fund ..... | 42          |
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance<br>- Budget and Actual – Budget Basis – Bus Driver Training Fund .....                                   | 43          |
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance<br>- Budget and Actual – Budget Basis –<br>Management Information System (EMIS) Fund .....               | 44          |
| Statement of Cash Receipts, Cash Disbursements and Change in Fund Balance<br>- Budget and Actual – Budget Basis – Parent Mentor Fund .....   | 45          |
| Statement of Fiduciary Net Assets – Modified Cash Basis - Fiduciary Funds .....  | 46          |
| Notes to the Basic Financial Statements .....  | 47          |
| Independent Accountants' Report on Internal Control Over Financial Reporting and<br>on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....         | 63          |
| Schedule of Findings.....  | 65          |
| Schedule of Prior Audit Findings.....  | 67          |



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, (the Service Center), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Allen County, as of June 30, 2005 and 2004, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General Fund for fiscal year 2005 and the General Fund, Science Enhancement for Science Advancement, Bus Driver Training, Management Information Systems, and Payment Mentor funds for fiscal year 2004, thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the fiscal year ended June 30, 2004, the Service Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

July 20, 2006

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- General Receipts accounted for \$662,792 in receipts, or 10 percent of all receipts. Charges for Services and Operating Grants account for \$6,071,388 or 90 percent of all receipts.
- Total program expenses were \$5,846,083, for governmental activities.
- In total, net assets increased \$888,097 due, in part, to increased contract services (Charges for Services) with local school districts paid through the school foundation program and a decrease in instruction and support services expenditures.

**Using this Annual Report**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2005, the General Fund is by far the most significant fund.

**Basis of Accounting**

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

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(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 2005?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

**Reporting the Service Center's Most Significant Funds**

**Fund Financial Statements** - The analysis of the Service Center's major fund begins on page 11. Fund financial reports provide detailed information about the Service Center's major fund. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental fund is the General fund.

**Governmental Funds** - Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end and available for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid.

The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Reporting the Service Center's Fiduciary Responsibilities**

The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 14. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**The Service Center as a Whole**

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for fiscal year 2005 compared to fiscal year 2004:

**(Table 1)**  
**Net Assets – Modified Cash Basis**

|                               | <b>Governmental Activities</b> |                   |
|-------------------------------|--------------------------------|-------------------|
|                               | <b>2005</b>                    | <b>2004</b>       |
| <b>Assets</b>                 |                                |                   |
| Cash and Cash Equivalents     | \$1,010,158                    | \$ 122,061        |
| <b>Total Assets</b>           | <u>\$1,010,158</u>             | <u>\$ 122,061</u> |
| <b>Net Assets</b>             |                                |                   |
| Restricted for Capital Outlay | \$ -                           | \$ 2,183          |
| Restricted for Other Purposes | 153,691                        | 202,819           |
| Unrestricted                  | 856,467                        | (82,941)          |
| <b>Total Net Assets</b>       | <u>\$1,010,158</u>             | <u>\$ 122,061</u> |

Table 2 shows the changes in net assets for fiscal years 2005 and 2004. This table presents two fiscal years in side-by-side comparison for successive reporting years. This enables the reader to draw further conclusions about the Service Center's financial status and possibly project future problems.

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

|  | <b>Governmental Activities</b> |                     |
|--|--------------------------------|---------------------|
|  | <b>2005</b>                    | <b>2004</b>         |
| <b>Receipts</b>                          |                                |                     |
| <b>Program Receipts</b>                  |                                |                     |
| Charges for Services                     | \$4,929,296                    | \$4,084,821         |
| Operating Grants                         | 1,142,092                      | 1,153,516           |
| General Receipts                         |                                |                     |
| Grants and Entitlements                  | 564,058                        | 589,077             |
| Interest                                 | 20,267                         | 4,596               |
| Miscellaneous                            | 59,356                         | 75,876              |
| Refund of Prior Year Expenditures        | 19,111                         | 2,511               |
| <b>Total Receipts</b>                    | <u>6,734,180</u>               | <u>5,910,397</u>    |
| <b>Program Disbursements</b>             |                                |                     |
| Instruction                              | 3,267,008                      | 3,656,055           |
| Support Services                         | 2,578,687                      | 2,841,480           |
| Non-Instructional                        | 388                            | 611                 |
| <b>Total Disbursements</b>               | <u>5,846,083</u>               | <u>6,498,146</u>    |
| <b>Increase/(Decrease) in Net Assets</b> | <u>\$ 888,097</u>              | <u>\$ (587,749)</u> |

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**Governmental Activities**

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$6 million in 2005. Charges for services are received from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. Charges for Services and Operating Grants were over 90 percent of total receipts in 2005.

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**

|   | <b>2005</b>                      |   | <b>2004</b>                      |   |
|---|----------------------------------|---|----------------------------------|---|
|   | <b>Total Cost<br/>of Service</b> | <b>Net Cost<br/>(Receipts)<br/>of Service</b> | <b>Total Cost<br/>of Service</b> | <b>Net Cost<br/>(Receipts)<br/>of Service</b> |
| <b>Instruction</b>                      | \$3,267,008                      | \$(865,583)                                   | \$3,656,055                      | \$419,729                                     |
| <b>Support Services:</b>                |                                  |   |                                  |   |
| Pupil and Instructional Staff           | 2,015,936                        | 184,277                                       | 2,249,708                        | 353,536                                       |
| Board of Education, Administration      |                                  |   |                                  |   |
| Fiscal and Business                     | 413,409                          | 413,409                                       | 454,926                          | 454,926                                       |
| Operation and Maintenance               |                                  |   |                                  |   |
| of Plant                                | 500                              | 500   | 1,286                            | 1,286   |
| Pupil Transportation                    | 148,184                          | 45,816  | 134,618                          | 33,605  |
| Central                                 | 658                              | (2,342)                                       | 942                              | (2,058)                                       |
| Operation of Non-instructional Services | 388                              | (1,382)                                       | 611                              | (1,215)                                       |
| <b>Total</b>                            | <b>\$5,846,083</b>               | <b>\$ (225,305)</b>                           | <b>\$6,498,146</b>               | <b>\$1,259,809</b>                            |

Instruction and student support services comprise 90 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 3 percent of governmental program expenses. Board of Education, fiscal and administration charges totaled 7 percent.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2005, the Service Center did not significantly modify its general fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis receipts were \$6,177,940 and were under the original budget estimates of \$8,043,004. Of this \$1,865,064 variance, most was attributable to intergovernmental funding receipts being less than estimated.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**Current Issues**

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

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

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

**Contacting the Service Center's Financial Management**

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

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EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2005

|                                     | <b>Governmental<br/>Activities</b> |
|-------------------------------------|------------------------------------|
| <b>Assets</b>                       |                                    |
| Equity in Cash and Cash Equivalents | <u>\$1,010,158</u>                 |
| Total Assets                        | <u><u>1,010,158</u></u>            |
| <b>Net Assets</b>                   |                                    |
| Restricted for Other Purposes       | 153,691                            |
| Unrestricted                        | <u>856,467</u>                     |
| <b>Total Net Assets</b>             | <u><u>\$1,010,158</u></u>          |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

|   | <b>Program Cash Receipts</b>                      |   | <b>Net (Disbursements)<br/>Receipts and<br/>Changes in Net<br/>Assets</b> |
|---|---|---|---|
| <b>Cash<br/>Disbursements</b>           | <b>Charges for<br/>for Services<br/>and Sales</b> | <b>Operating<br/>Grants and<br/>Contributions</b> | <b>Governmental<br/>Activities</b>  |
| <b>Governmental Activities:</b>         |   |   |   |
| Instruction                             |   |   |   |
| Regular                                 | \$305,602   | \$211,363   | \$91,770  |
| Special                                 | 2,961,406   | 3,176,047   | 653,411   |
| Support Services                        |   |   |   |
| Pupil                                   | 1,222,861   | 1,197,455   | (25,406)  |
| Instructional Staff                     | 793,075   | 331,671   | 302,533   |
| Board of Education                      | 10,014  |   | (10,014)  |
| Administration                          | 314,587   |   | (314,587)   |
| Fiscal                                  | 88,105  |   | (88,105)  |
| Business                                | 703   |   | (703)   |
| Operation and Maintenance of Plant      | 500   |   | (500)   |
| Pupil Transportation                    | 148,184   | 10,990  | 91,378  |
| Central                                 | 658   |   | 3,000   |
| Operation of Non-Instructional Services | 388   | 1,770   | 1,382   |
| <b>Total Governmental Activities</b>    | <b>\$5,846,083</b>                                | <b>\$4,929,296</b>                                | <b>\$1,142,092</b>  |
|   |   | <b>General Receipts</b>                           |   |
|   |   | Grants and Entitlements not                       |   |
|   |   | Restricted to Specific Programs                   | 564,058   |
|   |   | Refund of Prior Year Expenditures                 | 19,111  |
|   |   | Interest  | 20,267  |
|   |   | Miscellaneous                                     | 59,356  |
|   |   | Total General Receipts                            | 662,792   |
|   |   | Change in Net Assets                              | 888,097   |
|   |   | Net Assets - Beginning of Year                    | 122,061   |
|   |   | <b>Net Assets - End of Year</b>                   | <b>\$1,010,158</b>  |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

|                                     | <u>General<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------|-------------------------|---|---|
| <b>Assets</b>                       |                         |   |   |
| Equity in Cash and Cash Equivalents | <u>\$856,467</u>        | <u>\$153,691</u>                        | <u>\$1,010,158</u>                      |
| Total Assets                        | <u><u>856,467</u></u>   | <u><u>153,691</u></u>                   | <u><u>1,010,158</u></u>                 |
| <br><b>Fund Balances</b>            |                         |   |   |
| Reserved for Encumbrances           | \$38,335                | \$33,327                                | \$71,662                                |
| Unreserved:                         |                         |   |   |
| Undesignated, Reported in:          |                         |   |   |
| General Fund                        | 818,132                 |   | 818,132                                 |
| Special Revenue Funds               |                         | <u>120,364</u>                          | <u>120,364</u>                          |
| <b>Total Fund Balances</b>          | <u><u>\$856,467</u></u> | <u><u>\$153,691</u></u>                 | <u><u>\$1,010,158</u></u>               |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS CHANGES IN FUND BALANCES  
MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

|   | <b>General<br/>Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|-------------------------|---|---|
| <b>Cash Receipts</b>                          |                         |   |   |
| Intergovernmental                             | \$1,332,903             | \$496,639                               | \$1,829,542                             |
| Contract Services                             | 4,786,396               |   | 4,786,396                               |
| Interest                                      | 20,267                  |   | 20,267                                  |
| Tuition and Fees                              | 6,748                   | 10,990                                  | 17,738                                  |
| Extracurricular Activities                    | 1,770                   |   | 1,770                                   |
| Miscellaneous                                 | 29,856                  | 29,500                                  | 59,356                                  |
| <b>Total Cash Receipts</b>                    | <b>6,177,940</b>        | <b>537,129</b>                          | <b>6,715,069</b>                        |
| <b>Cash Disbursements</b>                     |                         |   |   |
| Current:                                      |                         |   |   |
| Instruction                                   |                         |   |   |
| Regular                                       | 211,363                 | 94,239                                  | 305,602                                 |
| Special                                       | 2,955,979               | 5,427                                   | 2,961,406                               |
| Support Services                              |                         |   |   |
| Pupil   | 1,222,861               |   | 1,222,861                               |
| Instructional Staff                           | 452,525                 | 340,550                                 | 793,075                                 |
| Board of Education                            | 10,014                  |   | 10,014                                  |
| Administration                                | 314,587                 |   | 314,587                                 |
| Fiscal  | 88,105                  |   | 88,105                                  |
| Business                                      | 703                     |   | 703                                     |
| Operation and Maintenance of Plant            | 500                     |   | 500                                     |
| Pupil Transportation                          | 42                      | 148,142                                 | 148,184                                 |
| Central                                       |                         | 658                                     | 658                                     |
| Operation of Non-Instructional Services       | 388                     |   | 388                                     |
| <b>Total Cash Disbursements</b>               | <b>5,257,067</b>        | <b>589,016</b>                          | <b>5,846,083</b>                        |
| Excess of Receipts Over/(Under) Disbursements | 920,873                 | (51,887)                                | 868,986                                 |
| <b>Other Financing Sources</b>                |                         |   |   |
| Refund of Prior Year Expenditures             | 18,535                  | 576                                     | 19,111                                  |
| <b>Total Other Financing Sources</b>          | <b>18,535</b>           | <b>576</b>                              | <b>19,111</b>                           |
| Net Change in Fund Balances                   | 939,408                 | (51,311)                                | 888,097                                 |
| Fund Balances Beginning                       | (82,941)                | 205,002                                 | 122,061                                 |
| <b>Fund Balances End of Year</b>              | <b>\$856,467</b>        | <b>\$153,691</b>                        | <b>\$1,010,158</b>                      |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

|   | Budgeted Amounts |             |             | Variance with<br>Final Budget<br>Over (Under) |
|---|------------------|-------------|-------------|---|
|   | Original         | Final       | Actual      |   |
| <b>Receipts</b>                               |                  |             |             |   |
| Intergovernmental                             | \$3,092,000      | \$3,092,000 | \$1,332,903 | (\$1,759,097)                                 |
| Contract Services                             | 4,916,404        | 4,916,404   | 4,786,396   | (130,008)                                     |
| Interest                                      | 7,200            | 7,200       | 20,267      | 13,067  |
| Tuition and Fees                              | 8,000            | 8,000       | 6,748       | (1,252)                                       |
| Extracurricular Activities                    | 1,800            | 1,800       | 1,770       | (30)  |
| Miscellaneous                                 | 17,600           | 17,600      | 29,856      | 12,256  |
| Total Receipts                                | 8,043,004        | 8,043,004   | 6,177,940   | (1,865,064)                                   |
| <b>Disbursements</b>                          |                  |             |             |   |
| Current:                                      |                  |             |             |   |
| Instruction                                   |                  |             |             |   |
| Regular                                       | 345,557          | 352,787     | 211,673     | 141,114                                       |
| Special                                       | 3,495,705        | 3,532,269   | 2,957,558   | 574,711                                       |
| Support Services                              |                  |             |             |   |
| Pupil   | 1,359,896        | 1,370,198   | 1,222,861   | 147,337                                       |
| Instructional Staff                           | 544,019          | 545,336     | 455,076     | 90,260  |
| Board of Education                            | 10,077           | 11,218      | 10,292      | 926   |
| Administration                                | 406,407          | 422,407     | 331,599     | 90,808  |
| Fiscal  | 94,580           | 96,740      | 88,183      | 8,557   |
| Business                                      | 2,062            | 5,062       | 4,258       | 804   |
| Operation and Maintenance of Plant            | 1,050            | 1,050       | 693         | 357   |
| Pupil Transportation                          | 12,006           | 13,006      | 12,822      | 184   |
| Operation of Non-Instructional Services       | 3,130            | 3,130       | 387         | 2,743   |
| Total Disbursements                           | 6,274,489        | 6,353,203   | 5,295,402   | 1,057,801                                     |
| Excess of Receipts Over (Under) Disbursements | 1,768,515        | 1,689,801   | 882,538     | (807,263)                                     |
| <b>Other Financing Sources (Uses)</b>         |                  |             |             |   |
| Other Miscellaneous Use of Funds              | (1,795,191)      | (1,724,996) |             | 1,724,996                                     |
| Refund of Prior Year Expenditures             |                  |             | 18,535      | 18,535  |
| Total Other Financing Sources (Uses)          | (1,795,191)      | (1,724,996) | 18,535      | 1,743,531                                     |
| Net Change in Fund Balances                   | (26,676)         | (35,195)    | 901,073     | 936,268                                       |
| Fund Balance Beginning                        | (109,661)        | (109,661)   | (109,661)   |   |
| Prior Year Encumbrances Appropriated          | 26,720           | 26,720      | 26,720      |   |
| <b>Fund Balance End of Year</b>               | (\$109,617)      | (\$118,136) | \$818,132   | \$936,268                                     |

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
JUNE 30, 2005

|                           | <u>Agency</u>             |
|---------------------------|---------------------------|
| <b>Assets</b>             |                           |
| Cash and Cash Equivalents | \$4,344,390               |
| Investments               | <u>5,450,680</u>          |
| Total Assets              | <u><u>9,795,070</u></u>   |
| <br>                      |                           |
| <b>Net Assets</b>         |                           |
| Unrestricted              | <u>9,795,070</u>          |
| Total Net Assets          | <u><u>\$9,795,070</u></u> |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**1. DESCRIPTION OF THE REPORTING ENTITY**

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

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

**A. Reporting Entity**

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(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 generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

**B. Basis of Presentation - Fund Accounting**

**1. Government-Wide Financial Statements**

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

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

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

The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities are financed through intergovernmental receipts, contract services, 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 the governmental type activity financial statement 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 these categories.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

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

**3. Governmental Funds**

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

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

**4. Fiduciary Funds**

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

**C. Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed.

The Service Center's Board budgets for resources estimated to be received during the fiscal year. The estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amount reported as the original budgeted amounts on the budgetary statement reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statement reflect the amounts of the estimated revenues in effect at the time final appropriations were approved by the Board. There was no change between the original and final estimated revenue.

The Service Center adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established at the fund, function and object level of expenditures. All funds are budgeted and appropriated, except for the Agency Fund for the Section 125 Plan.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the first appropriation resolution for that fund, including amounts carried forward from the prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts approved by the Board.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Cash, Cash Equivalents and Investments**

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

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

During fiscal year 2005, investments were limited to money market accounts, premium interest-bearing accounts, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and STAR Ohio. These bonds and accounts are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Investment earnings are allocated as authorized by State statute based upon Service Center policy. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2005 were \$20,267 which included \$5,106, assigned from other funds.

**E. Capital Assets**

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

**F. Accumulated Leave**

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

**G. Inventory and Prepaid Items**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. 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 2005, these funds include the Preschool Grant.

**I. Interfund Receivables/Payables**

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.

**J. 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.

**K. Equity Classifications**

**1. Government-Wide Statements**

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

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

**2. Fund Financial Statements**

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

**L. Receipts**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**3. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States treasury 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.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings deposit accounts, including but not limited to, passbook accounts;

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
9. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Deposits** – At fiscal year end, the carrying amount of the Service Center's deposits was \$3,919,500 and the bank balance was \$4,085,379. 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. At fiscal year end, \$3,785,379 of the Service Center's bank balance of \$4,085,379 was exposed to custodial credit risk because it was uninsured and collateralized.

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.

**Investments:** Investments are reported at fair value. As of June 30, 2005, the Service Center's investments were as follows:

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

|                                       | <u>Carrying<br/>Value</u> | <u>Market<br/>Value</u> | <u>Maturity</u>    |
|---------------------------------------|---------------------------|-------------------------|--------------------|
| Federal National Mortgage Association | \$ 500,000                | \$ 490,000              | January 30, 2007   |
| Federal National Mortgage Association | 500,000                   | 491,720                 | August 6, 2007     |
| Federal National Mortgage Association | 250,000                   | 246,174                 | April 20, 2006     |
| Federal National Mortgage Association | 250,000                   | 247,423                 | March 28, 2006     |
| Federal National Mortgage Association | 500,000                   | 492,815                 | April 30, 2007     |
| Federal National Mortgage Association | 250,000                   | 250,000                 | June 29, 2007      |
| Federal Home Loan Bank Bonds          | 500,000                   | 492,030                 | July 28, 2006      |
| Federal Home Loan Bank Bonds          | 251,195                   | 248,828                 | December 6, 2005   |
| Federal Home Loan Bank Bonds          | 250,003                   | 244,923                 | October 20, 2006   |
| Federal Home Loan Bank Bonds          | 696,590                   | 696,500                 | September 30, 2005 |
| Federal Home Loan Bank Bonds          | 499,125                   | 497,030                 | December 12, 2007  |
| Federal Home Loan Bank Bonds          | 500,000                   | 499,375                 | June 16, 2008      |
| Federal Home Loan Bank Bonds          | 503,767                   | 498,750                 | August 26, 2009    |
| Totals                                | <u>5,450,680</u>          | <u>\$5,395,568</u>      |                    |
| Star Ohio                             | 1,435,048                 |                         |                    |
| Total Investments                     | <u>\$6,885,728</u>        |                         |                    |

**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 purchasers 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 Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

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

Of the Service Center's investments the underlying securities in the form of Federal Home Loan Bank and Federal Home Loan Mortgage Corporation Notes and Bonds with a Standard and Poor credit rating of AAA are held by the investment's counterparty, and not in the name of the Service Center.

**Concentration Risk** - The Service Center places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the Service Center's total portfolio:

|                                       | <u>Value as of<br/>June 30, 2005</u> | <u>Percent of<br/>Investment<br/>Total</u> |
|---------------------------------------|--------------------------------------|--|
| Federal National Mortgage Association | \$2,250,000                          | 32.7%                                      |
| Federal Home Loan Bank                | 3,200,680                            | 46.5%                                      |
| STAR Ohio                             | 1,435,048                            | 20.8%                                      |
| <b>Total</b>                          | <u>\$6,885,728</u>                   | <u>100.00%</u>                             |

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**5. PRIMARY RECEIPT SOURCES**

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

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

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00.

The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

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

**B. State Foundation Distributions**

**1. Amounts Paid by the Local School Districts**

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

**2. Amounts Paid under Contract by Local School Districts**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**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 2005, the Service Center contracted for the following insurance coverage through the Ohio School Risk Sharing Authority:

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

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

The Service Center participates in the 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 2005, 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 shares 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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

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 Allied Benefit Systems, Inc. In fiscal year 2005, the Service Center contributed \$3,975 to the life insurance plan and \$23,869 to the cafeteria 125 flexible plan.

**7. PENSION PLANS**

**A. State Teachers Retirement System**

The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan.

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

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of 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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2005, 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$292,396, \$321,655 and \$368,110; 100 percent has been contributed for fiscal year 2005, 2004 and 2003. Total contribution to the Defined Contribution and Combined Plans for fiscal year 2005 were \$9,227 made by the Service Center and \$12,236 made by the plan members.

**B. School Employees Retirement System**

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

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$57,260, \$59,498 and \$40,933; 100 percent has been contributed for fiscal year 2005, 2004 and 2003.

**8. POST-EMPLOYMENT BENEFITS**

The Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**8. POST-EMPLOYMENT BENEFITS (Continued)**

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$22,492 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the Service Center paid \$21,606 to fund health care benefits, including the surcharge. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**9. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative (NOACSC)**

The Service Center is a participant in NOACSC, which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Allen, Paulding, Putnam, and Van Wert Counties and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**9. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**B. West Central Regional Professional Development Center**

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the educational entities in Allen, Auglaize, Hancock, Hardin, Paulding, Putnam, and Van Wert Counties. The Center was formed to establish an articulated regional structure for professional development in which educational entities, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a fifty-two member board made up of representatives from the participating educational entities, the business community, and two institutions of higher learning. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

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

The SERRC is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Treasurer, Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

**10. INSURANCE PURCHASING POOLS**

**A. Ohio Risk Sharing Authority**

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

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

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**10. 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, Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

**11. GRANTS**

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2005.

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**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)**

Management's discussion and analysis of the Allen County Educational Service Center's (Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- General Receipts accounted for \$672,060 in receipts, or 11 percent of all receipts. Charges for Services and Operating Grants account for \$5,238,337 or 89 percent of all receipts.
- Total program expenses were \$6,498,146, for governmental activities.
- In total, net assets decreased \$587,749 due, in part, to increases in instruction and support services expenditures that were not billed or collected from local school districts by fiscal year end.

**Using this Annual Report**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Service Center, presenting both an aggregate view of the Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other nonmajor funds presented in total in one column. For fiscal year 2004, the General Fund is by far the most significant fund.

**Basis of Accounting**

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

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)**

**Reporting the Educational 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 2004?" The Statement of Net Assets and the Statement of Activities answer this question.

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

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

**Reporting the Educational 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 include the General fund, the Science Enhancement for Science Advancement (SESA) fund, the Bus Driver Training Program fund, the Management Information System (EMIS) Fund and the Parent Mentor Grant fund.

**Governmental Funds** - Most of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end and available for spending in future periods. These funds are reported using a modified cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid.

The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Reporting the Educational Service Center's Fiduciary Responsibilities**

The Service Center acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The Service Center's fiduciary activities are reported in the Statement of Fiduciary Net Assets on page 46. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)**

**The Educational Service Center as a Whole**

This year's financial statements were prepared on the modified cash basis utilizing the GASB 34 format. Table 1 provides a summary of the Service Center's net assets for fiscal year 2004 compared to fiscal year 2003:

**(Table 1)**  
**Net Assets – Modified Cash Basis**

|                               | <b>Governmental<br/>2004</b> | <b>Activities<br/>2003</b> |
|-------------------------------|------------------------------|----------------------------|
| <b>Assets</b>                 |                              |                            |
| Cash and cash equivalents     | \$122,061                    | \$709,810                  |
| <b>Total Assets</b>           | <b>\$ 22,061</b>             | <b>\$709,810</b>           |
| <b>Net Assets</b>             |                              |                            |
| Restricted for Capital Outlay | \$ 2,183                     | \$ -                       |
| Restricted for Other Purposes | 202,819                      | 235,030                    |
| Unrestricted                  | (82,941)                     | 474,780                    |
| <b>Total Net Assets</b>       | <b>\$122,061</b>             | <b>\$709,810</b>           |

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Service Center has prepared financial statements following GASB Statement No. 34, receipts and disbursements comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusions about the Service Center's financial status and possibly project future problems.

**(Table 2)**  
**Change in Net Assets – Modified Cash Basis**

|                                | <b>Governmental<br/>Activities</b> |
|--------------------------------|------------------------------------|
| <b>Receipts</b>                |                                    |
| <b>Program Receipts</b>        |                                    |
| Charges for Services and Sales | \$4,084,821                        |
| Operating Grants               | 1,153,516                          |
| <b>General Receipts</b>        |                                    |
| Grants and Entitlements        | 589,077                            |
| Interest                       | 4,596                              |
| Miscellaneous                  | 75,876                             |
| Other Financing Sources        | 2,511                              |
| Total Receipts                 | 5,910,397                          |
| <b>Program Disbursements</b>   |                                    |
| Instruction                    | 3,656,055                          |
| Support Services               | 2,841,480                          |
| Non-Instructional              | 611                                |
| Total Disbursements            | 6,498,146                          |
| <b>Decrease in Net Assets</b>  | <b>\$ (587,749)</b>                |

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)**

**Governmental Activities**

Several receipt sources fund the Service Center's governmental activities with the state foundation program and contracts with other school districts being the largest contributors. In total, these sources provided \$5.2 million in 2004. Charges for services are received from local school districts for services performed. General receipts from grants and entitlements are also a large receipts generator. With the combination of charges for services and operating grants at over 88 percent of revenues in governmental activities, the Service Center monitors both of these receipt sources very closely for fluctuations.

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. Comparisons to 2003 have not been made since they are not available.

**(Table 3)  
Governmental Activities**

|   | <b>Total Cost<br/>of Service</b> | <b>Net Cost<br/>(Receipts) of<br/>Service</b> |
|---|----------------------------------|---|
| <b>Instruction</b>  | \$3,656,055                      | \$ 419,729                                    |
| <b>Support Services:</b>                                  |                                  |   |
| Pupil and Instructional Staff                             | 2,249,708                        | 353,536                                       |
| Board of Education, Administration<br>Fiscal and Business | 454,926                          | 454,926                                       |
| Operation and Maintenance of Plant                        | 1,286                            | 1,286   |
| Pupil Transportation                                      | 134,618                          | 33,605  |
| Central   | 942                              | (2,058)                                       |
| Operation of Non-instructional Services                   | 611                              | (1,215)                                       |
| <b>Total</b>  | <b>\$6,498,146</b>               | <b>\$1,259,809</b>                            |

Instruction and student support services comprise 91 percent of governmental program expenses. Pupil transportation and the operation/maintenance of facilities accounts for 2 percent of governmental program expenses with the Board of Education, fiscal and administration charges totaling 7 percent.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2004, the Service Center did not significantly modify its general fund budget. The Service Center uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis receipts were \$261,822 over the original budget estimates of \$5,127,996. Of this \$261,822 increase, most was attributable to an increase in contract services.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(UNAUDITED)  
(Continued)**

**Current Issues**

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

Our largest receipt stream is the contracts we secure from the services we offer. In fiscal year 2004 our contracted revenue accounted for \$4.7 million. Our accounts receivable process included monthly invoices to the vendors for the services provided for the previous month. At the end of fiscal year 2004 we had not collected the revenue necessary to offset the expenditures thus creating a general fund deficit balance of \$82,941 for 2004. The deficit balance called for an overhaul of the accounts receivable process immediately to alleviate this problem for fiscal year 2005.

The Service Center is fortunate to have good working relationships with the local schools we serve. The schools agreed to have our contracted service fees deducted from their state foundation statement and sent directly to the Service Center thus eliminating the invoicing process and the Service Center receiving funds in arrears.

The Service Center is like all businesses and trying to do more with less. As staff retire or resign they are not replaced. The employees are paying more for their health insurance thus saving the Service Center money.

How the legislature plans to fund educational programs during a weakened economy remains a concern.

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

**Contacting the Educational 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 Rd., Lima, OH 45801.

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EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2004

|                                     | <u>Governmental<br/>Activities</u> |
|-------------------------------------|------------------------------------|
| <b>Assets</b>                       |                                    |
| Equity in Cash and Cash Equivalents | <u>\$122,061</u>                   |
| Total Assets                        | <u><u>122,061</u></u>              |
| <br>                                |                                    |
| <b>Net Assets</b>                   |                                    |
| Restricted for Capital Projects     | 2,183                              |
| Restricted for Other Purposes       | 202,819                            |
| Unrestricted                        | <u>(82,941)</u>                    |
| <b>Total Net Assets</b>             | <u><u>\$122,061</u></u>            |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|  | <u>Cash</u><br><u>Disbursements</u> | <u>Program Cash Receipts</u><br><u>Charges</u><br><u>for Services</u><br><u>and Sales</u> | <u>Operating</u><br><u>Grants and</u><br><u>Contributions</u> | <u>Net</u><br><u>(Disbursements)</u><br><u>Receipts and</u><br><u>Changes in Net</u><br><u>Assets</u> |
|--|-------------------------------------|---|---|---|
|  |                                     |   |   | <u>Governmental</u><br><u>Activities</u>  |
| <b>Governmental Activities:</b>                                |                                     |   |   |   |
| Instruction  |                                     |   |   |   |
| Regular  | \$346,127                           | \$182,528   | \$121,419   | (\$42,180)  |
| Special  | 3,309,928                           | 2,248,794   | 683,585   | (377,549)   |
| Support Services   |                                     |   |   |   |
| Pupil  | 1,378,952                           | 1,211,494   | 520   | (166,938)   |
| Instructional Staff  | 870,756                             | 430,544   | 253,614   | (186,598)   |
| Board of Education   | 8,422                               |   |   | (8,422)   |
| Administration   | 360,942                             |   |   | (360,942)   |
| Fiscal   | 84,386                              |   |   | (84,386)  |
| Business   | 1,176                               |   |   | (1,176)   |
| Operation and Maintenance of Plant                             | 1,286                               |   |   | (1,286)   |
| Pupil Transportation   | 134,618                             | 9,635   | 91,378  | (33,605)  |
| Central  | 942                                 |   | 3,000   | 2,058   |
| Operation of Non-Instructional Services                        | 611                                 | 1,826   |   | 1,215   |
| <b>Total Governmental Activities</b>                           | <u>6,498,146</u>                    | <u>4,084,821</u>  | <u>1,153,516</u>  | <u>(1,259,809)</u>  |
| <b>General Receipts</b>  |                                     |   |   |   |
| Grants and Entitlements not<br>Restricted to Specific Programs |                                     |   |   | 589,077   |
| Refund of Prior Year Expenditures                              |                                     |   |   | 2,511   |
| Interest   |                                     |   |   | 4,596   |
| Miscellaneous  |                                     |   |   | 75,876  |
| Total General Receipts   |                                     |   |   | <u>672,060</u>  |
| Change in Net Assets   |                                     |   |   | (587,749)   |
| Net Assets - Beginning of Year                                 |                                     |   |   | <u>709,810</u>  |
| <b>Net Assets - End of Year</b>                                |                                     |   |   | <u><u>\$122,061</u></u>   |

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

|                            | <u>General<br/>Fund</u> | <u>SESA</u>     | <u>Bus Driver<br/>Training</u> | <u>EMIS</u>     | <u>Parent Mentor<br/>Grant Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|----------------------------|-------------------------|-----------------|--------------------------------|-----------------|-------------------------------------|---|---|
| <b>Assets</b>              |                         |                 |                                |                 |                                     |   |   |
| Cash and Cash Equivalents  | (\$82,941)              | \$26,436        | \$115,808                      | \$21,382        | \$44,808                            | (\$3,432)                               | \$122,061                               |
| <br>Total Assets           | <u>(82,941)</u>         | <u>26,436</u>   | <u>115,808</u>                 | <u>21,382</u>   | <u>44,808</u>                       | <u>(3,432)</u>                          | <u>122,061</u>                          |
| <br><b>Fund Balances</b>   |                         |                 |                                |                 |                                     |   |   |
| Reserved for Encumbrances  | 26,720                  | 20,394          | 83                             | 92              | 36,296                              | 6,216                                   | 89,801                                  |
| Unreserved:                |                         |                 |                                |                 |                                     |   |   |
| Undesignated, Reported in: |                         |                 |                                |                 |                                     |   |   |
| General Fund               | (109,661)               |                 |                                |                 |                                     |   | (109,661)                               |
| Special Revenue Funds      |                         | 6,042           | 115,725                        | 21,290          | 8,512                               | (9,648)                                 | 141,921                                 |
| <b>Total Fund Balances</b> | <u>(\$82,941)</u>       | <u>\$26,436</u> | <u>\$115,808</u>               | <u>\$21,382</u> | <u>\$44,808</u>                     | <u>(\$3,432)</u>                        | <u>\$122,061</u>                        |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES  
MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|  | <b>General<br/>Fund</b> | <b>SESA</b>     | <b>Bus Driver<br/>Training</b> | <b>EMIS</b>     | <b>Parent Mentor<br/>Grant Fund</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--|-------------------------|-----------------|--------------------------------|-----------------|-------------------------------------|---|---|
| <b>Cash Receipts</b>                                       |                         |                 |                                |                 |                                     |   |   |
| Intergovernmental  | \$1,280,800             |                 | \$91,378                       | \$3,000         | \$227,133                           | \$151,195                               | \$1,753,506                             |
| Contract Services  | 4,054,072               |                 |                                |                 |                                     |   | 4,054,072                               |
| Interest   | 4,596                   |                 |                                |                 |                                     |   | 4,596                                   |
| Tuition and Fees   | 8,375                   |                 | 9,635                          |                 |                                     |   | 18,010                                  |
| Extracurricular Activities                                 | 1,826                   |                 |                                |                 |                                     |   | 1,826                                   |
| Miscellaneous  | 40,149                  | \$28,500        | 7,227                          |                 |                                     |   | 75,876                                  |
| <b>Total Cash Receipts</b>                                 | <b>5,389,818</b>        | <b>28,500</b>   | <b>108,240</b>                 | <b>3,000</b>    | <b>227,133</b>                      | <b>151,195</b>                          | <b>5,907,886</b>                        |
| <b>Cash Disbursements</b>                                  |                         |                 |                                |                 |                                     |   |   |
| <b>Current:</b>  |                         |                 |                                |                 |                                     |   |   |
| <b>Instruction</b>   |                         |                 |                                |                 |                                     |   |   |
| Regular  | 182,528                 |                 |                                |                 |                                     | 163,599                                 | 346,127                                 |
| Special  | 3,307,153               |                 |                                |                 |                                     | 2,775                                   | 3,309,928                               |
| <b>Support Services</b>                                    |                         |                 |                                |                 |                                     |   |   |
| Pupil  | 1,378,432               |                 |                                |                 |                                     | 520                                     | 1,378,952                               |
| Instructional Staff  | 613,670                 | 23,822          |                                |                 | 195,355                             | 37,909                                  | 870,756                                 |
| Board of Education   | 8,422                   |                 |                                |                 |                                     |   | 8,422                                   |
| Administration   | 360,942                 |                 |                                |                 |                                     |   | 360,942                                 |
| Fiscal   | 84,386                  |                 |                                |                 |                                     |   | 84,386                                  |
| Business   | 1,176                   |                 |                                |                 |                                     |   | 1,176                                   |
| Operation and Maintenance of Plant                         | 1,286                   |                 |                                |                 |                                     |   | 1,286                                   |
| Pupil Transportation                                       | 11,444                  |                 | 123,174                        |                 |                                     |   | 134,618                                 |
| Central  |                         |                 |                                | 942             |                                     |   | 942                                     |
| Operation of Non-Instructional Services                    | 611                     |                 |                                |                 |                                     |   | 611                                     |
| <b>Total Cash Disbursements</b>                            | <b>5,950,050</b>        | <b>23,822</b>   | <b>123,174</b>                 | <b>942</b>      | <b>195,355</b>                      | <b>204,803</b>                          | <b>6,498,146</b>                        |
| Excess of Cash Receipts Over<br>(Under) Cash Disbursements | (560,232)               | 4,678           | (14,934)                       | 2,058           | 31,778                              | (53,608)                                | (590,260)                               |
| <b>Other Financing Sources (Uses)</b>                      |                         |                 |                                |                 |                                     |   |   |
| Refund of Prior Year Expenditures                          | 2,511                   |                 |                                |                 |                                     |   | 2,511                                   |
| <b>Total Other Financing Sources (Uses)</b>                | <b>2,511</b>            | <b>-</b>        | <b>-</b>                       | <b>-</b>        | <b>-</b>                            | <b>-</b>                                | <b>2,511</b>                            |
| <b>Net Change in Fund Balances</b>                         | <b>(557,721)</b>        | <b>4,678</b>    | <b>(14,934)</b>                | <b>2,058</b>    | <b>31,778</b>                       | <b>(53,608)</b>                         | <b>(587,749)</b>                        |
| Fund Balances Beginning                                    | 474,780                 | 21,758          | 130,742                        | 19,324          | 13,030                              | 50,176                                  | 709,810                                 |
| <b>Fund Balances End of Year</b>                           | <b>(\$82,941)</b>       | <b>\$26,436</b> | <b>\$115,808</b>               | <b>\$21,382</b> | <b>\$44,808</b>                     | <b>(\$3,432)</b>                        | <b>\$122,061</b>                        |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|   | <u>Budgeted Amounts</u> |                    | <u>Actual</u>      | <u>Variance with<br/>Final Budget<br/>Over (Under)</u> |
|---|-------------------------|--------------------|--------------------|--|
|   | <u>Original</u>         | <u>Final</u>       |                    |  |
| <b>Receipts</b>                               |                         |                    |                    |  |
| Intergovernmental                             | \$1,236,000             | \$1,236,000        | \$1,280,800        | \$44,800   |
| Contract Services                             | 3,836,496               | 3,836,496          | 4,054,072          | 217,576  |
| Interest                                      | 11,000                  | 11,000             | 4,596              | (6,404)  |
| Tuition and Fees                              | 6,400                   | 6,400              | 8,375              | 1,975  |
| Food Services                                 | 10,000                  | 10,000             | 374                | (9,626)  |
| Extracurricular Activities                    | 200                     | 200                | 1,826              | 1,626  |
| Miscellaneous                                 | 27,900                  | 27,900             | 39,775             | 11,875   |
| <b>Total Receipts</b>                         | <b>5,127,996</b>        | <b>5,127,996</b>   | <b>5,389,818</b>   | <b>261,822</b>   |
| <b>Disbursements</b>                          |                         |                    |                    |  |
| Current:                                      |                         |                    |                    |  |
| Instruction                                   |                         |                    |                    |  |
| Regular                                       | 318,099                 | 190,592            | 182,653            | 7,939  |
| Special                                       | 3,199,311               | 3,371,080          | 3,321,479          | 49,601   |
| Support Services                              |                         |                    |                    |  |
| Pupil   | 1,318,541               | 1,398,585          | 1,379,311          | 19,274   |
| Instructional Staff                           | 761,198                 | 641,771            | 617,432            | 24,339   |
| Board of Education                            | 7,379                   | 9,883              | 8,616              | 1,267  |
| Administration                                | 386,256                 | 393,364            | 368,377            | 24,987   |
| Fiscal  | 83,431                  | 88,329             | 84,386             | 3,943  |
| Business                                      | 5,647                   | 2,062              | 1,176              | 886  |
| Operation and Maintenance of Plant            | 10,546                  | 6,571              | 1,286              | 5,285  |
| Pupil Transportation                          | 7,000                   | 12,006             | 11,444             | 562  |
| Operation of Non-Instructional Services       | 162                     | 627                | 610                | 17   |
| <b>Total Disbursements</b>                    | <b>6,097,570</b>        | <b>6,114,870</b>   | <b>5,976,770</b>   | <b>138,100</b>   |
| Excess of Receipts Over (Under) Disbursements | (969,574)               | (986,874)          | (586,952)          | 399,922  |
| <b>Other Financing Sources</b>                |                         |                    |                    |  |
| Refund of Prior Year Expenditures             | 50,000                  | 50,000             | 2,511              | (47,489)   |
| <b>Net Change in Fund Balance</b>             | <b>(919,574)</b>        | <b>(936,874)</b>   | <b>(584,441)</b>   | <b>352,433</b>   |
| <b>Fund Balance Beginning</b>                 | <b>379,814</b>          | <b>379,814</b>     | <b>379,814</b>     |  |
| Prior Year Encumbrances Appropriated          | 94,966                  | 94,966             | 94,966             |  |
| <b>Fund Balance End of Year</b>               | <b>(\$444,794)</b>      | <b>(\$462,094)</b> | <b>(\$109,661)</b> | <b>\$352,433</b>                                       |

See accompanying notes to the basic financial statements.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
SCIENCE ENHANCEMENT FOR SCIENCE ADVANCEMENT (SESA) FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|                                      | <u>Budgeted Amounts</u> |                   | <u>Actual</u>  | <u>Variance with<br/>Final Budget<br/>Over (Under)</u> |
|--------------------------------------|-------------------------|-------------------|----------------|--|
|                                      | <u>Original</u>         | <u>Final</u>      |                |  |
| <b>Receipts</b>                      |                         |                   |                |  |
| Miscellaneous                        |                         |                   | \$28,500       | \$28,500   |
| Total Receipts                       |                         |                   | 28,500         | 28,500   |
| <b>Disbursements</b>                 |                         |                   |                |  |
| Current:                             |                         |                   |                |  |
| Support Services                     |                         |                   |                |  |
| Instructional Staff                  | \$26,258                | \$49,758          | 44,216         | 5,542  |
| Total Disbursements                  | 26,258                  | 49,758            | 44,216         | 5,542  |
| <b>Net Change in Fund Balance</b>    | (26,258)                | (49,758)          | (15,716)       | 34,042   |
| <b>Fund Balance Beginning</b>        | 3,160                   | 3,160             | 3,160          |  |
| Prior Year Encumbrances Appropriated | 18,598                  | 18,598            | 18,598         |  |
| <b>Fund Balance End of Year</b>      | <u>(\$4,500)</u>        | <u>(\$28,000)</u> | <u>\$6,042</u> | <u>\$34,042</u>  |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
BUS DRIVER TRAINING FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|                                      | <u>Budgeted Amounts</u> |                  | <u>Actual</u>    | <u>Variance with<br/>Final Budget<br/>Over (Under)</u> |
|--------------------------------------|-------------------------|------------------|------------------|--|
|                                      | <u>Original</u>         | <u>Final</u>     |                  |  |
| <b>Receipts</b>                      |                         |                  |                  |  |
| Intergovernmental                    | \$89,000                | \$89,000         | \$91,378         | \$2,378  |
| Tuition and Fees                     | 14,000                  | 14,000           | 9,635            | (4,365)  |
| Miscellaneous                        | 8,000                   | 8,000            | 7,227            | (773)  |
| <b>Total Receipts</b>                | <b>111,000</b>          | <b>111,000</b>   | <b>108,240</b>   | <b>(2,760)</b>   |
| <b>Disbursements</b>                 |                         |                  |                  |  |
| Current:                             |                         |                  |                  |  |
| Support Services                     |                         |                  |                  |  |
| Pupil Transportation                 | 238,742                 | 238,742          | 123,257          | 115,485  |
| <b>Total Disbursements</b>           | <b>238,742</b>          | <b>238,742</b>   | <b>123,257</b>   | <b>115,485</b>   |
| <b>Net Change in Fund Balance</b>    | <b>(127,742)</b>        | <b>(127,742)</b> | <b>(15,017)</b>  | <b>112,725</b>   |
| <b>Fund Balance Beginning</b>        | <b>128,044</b>          | <b>128,044</b>   | <b>128,044</b>   |  |
| Prior Year Encumbrances Appropriated | 2,698                   | 2,698            | 2,698            |  |
| <b>Fund Balance End of Year</b>      | <b>\$3,000</b>          | <b>\$3,000</b>   | <b>\$115,725</b> | <b>\$112,725</b>                                       |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
MANAGEMENT INFORMATION SYSTEM (EMIS) FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|                                      | <u>Budgeted Amounts</u> |                | <u>Actual</u>   | <u>Variance with<br/>Final Budget<br/>Over (Under)</u> |
|--------------------------------------|-------------------------|----------------|-----------------|--|
|                                      | <u>Original</u>         | <u>Final</u>   |                 |  |
| <b>Receipts</b>                      |                         |                |                 |  |
| Intergovernmental                    | \$3,000                 | \$3,000        | \$3,000         |  |
| Total Receipts                       | 3,000                   | 3,000          | 3,000           |  |
| <b>Disbursements</b>                 |                         |                |                 |  |
| Current:                             |                         |                |                 |  |
| Support Services                     |                         |                |                 |  |
| Central                              | 20,650                  | 20,650         | 1,034           | \$19,616   |
| Total Disbursements                  | 20,650                  | 20,650         | 1,034           | 19,616   |
| <b>Net Change in Fund Balance</b>    | (17,650)                | (17,650)       | 1,966           | 19,616   |
| <b>Fund Balance Beginning</b>        | 18,988                  | 18,988         | 18,988          |  |
| Prior Year Encumbrances Appropriated | 336                     | 336            | 336             |  |
| <b>Fund Balance End of Year</b>      | <u>\$1,674</u>          | <u>\$1,674</u> | <u>\$21,290</u> | <u>\$19,616</u>  |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
PARENT MENTOR FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

|                                      | <u>Budgeted Amounts</u> |                   | <u>Actual</u>  | <u>Variance with<br/>Final Budget<br/>Over (Under)</u> |
|--------------------------------------|-------------------------|-------------------|----------------|--|
|                                      | <u>Original</u>         | <u>Final</u>      |                |  |
| <b>Receipts</b>                      |                         |                   |                |  |
| Intergovernmental                    | \$18,000                | \$141,200         | \$227,133      | \$85,933   |
| Total Receipts                       | 18,000                  | 141,200           | 227,133        | 85,933   |
| <b>Disbursements</b>                 |                         |                   |                |  |
| Current:                             |                         |                   |                |  |
| Support Services                     |                         |                   |                |  |
| Instructional Staff                  | 30,388                  | 232,801           | 231,651        | 1,150  |
| Administration                       |                         | 345               |                | 345  |
| Total Disbursements                  | 30,388                  | 233,146           | 231,651        | 1,495  |
| <b>Net Change in Fund Balance</b>    | (12,388)                | (91,946)          | (4,518)        | 87,428   |
| <b>Fund Balance Beginning</b>        | 12,892                  | 12,892            | 12,892         |  |
| Prior Year Encumbrances Appropriated | 138                     | 138               | 138            |  |
| <b>Fund Balance End of Year</b>      | <u>\$642</u>            | <u>(\$78,916)</u> | <u>\$8,512</u> | <u>\$87,428</u>  |

*See accompanying notes to the basic financial statements.*

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|                           | <u>Agency</u>             |
|---------------------------|---------------------------|
| <b>Assets</b>             |                           |
| Cash and Cash Equivalents | \$4,777,288               |
| Investments               | <u>3,004,248</u>          |
| Total Assets              | <u><u>7,781,536</u></u>   |
| <br>                      |                           |
| <b>Net Assets</b>         |                           |
| Unrestricted              | <u>7,781,536</u>          |
| <br>                      |                           |
| <b>Total Net Assets</b>   | <u><u>\$7,781,536</u></u> |

*See accompanying notes to the basic financial statements.*

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE REPORTING ENTITY**

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

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

**Reporting Entity**

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

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

The Service Center is associated with three jointly governed organizations and three insurance purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Regional Professional Development Center, the West Central Ohio Special Education Regional Resource Center, the Ohio Risk Sharing Authority, the Northwest Ohio Area Computer Services Cooperative Workers' Compensation Group Rating Plan, and the Allen County Schools Health Benefit Plan. These organizations are presented in Notes 10 and 11 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(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 generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the modified cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

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

**B. Basis of Presentation - Fund Accounting**

**1. Government-Wide Financial Statements**

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

The Statement of Net Assets presents the financial condition of the governmental activities of the Educational 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 are financed through intergovernmental receipts, contract services 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 the governmental type activity financial statement 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 these categories.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

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

The funds of the financial reporting entity are described below:

**3. Governmental Funds**

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

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

**Science Enhancement for Science Advancement (SESA 2000-2004) Fund** – The SESA Fund is used to account for the ongoing activities associated with the program in school classrooms in Allen County.

**Bus Driver Training Program Fund** – The Bus Driver Fund is used to account for all activities associated with the Bus Driver Training Program funded by the Ohio Department of Education.

**Management Information System Fund (EMIS)** – Data collection fund used to track all activities associated with the EMIS mandate from the Ohio Department of Education.

**Parent Mentor Grant Fund** – The Parent Mentor Fund is used to administer the grant money received from the Ohio Department of Education to employ a Parent/Mentor coordinator to assist in special education.

**4. Fiduciary Fund Types**

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

**C. Cash, Cash Equivalents and Investments**

To improve cash management, all cash received by the Service Center is pooled in a central bank account, except for the cash and investments related to the Allen County Health Benefit Fund. 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 as "Equity in Pooled Cash and Cash Equivalents."

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

During fiscal year 2005, investments were limited to money market accounts, premium interest-bearing accounts, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and STAR Ohio. The bonds and accounts are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2004 were \$4,596 which included \$3,948, assigned from other funds.

**D. 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.

The Service Center's Board budgets for resources estimated to be received during the fiscal year. The estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amount reported as the original budgeted amounts on the budgetary statement reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statement reflect the amounts of the estimated revenues in effect at the time final appropriations were approved by the Board. There was no change between the original and final estimated revenue.

The Service Center adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established at the fund, function and object level of expenditures. All funds are budgeted and appropriated, except for the Agency Fund for the Section 125 Plan.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the first appropriation resolution for that fund, including amounts carried forward from the prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts approved by the Board.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Capital Assets**

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

**F. Accumulated Leave**

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

**G. 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.

**H. 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 intergovernmental disbursements in a special revenue fund. For fiscal year 2004, these funds include the Preschool Grant.

**I. Interfund Receivables/Payables**

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.

**J. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Receipts**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**Unrestricted net assets** - All other net assets that do not meet the definition of “restricted.”

**2. Fund Financial Statements**

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

**3. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2004, the Service Center changed its method of accounting for financial reporting from a basis of accounting formerly prescribed for school districts, including service centers, by the Auditor of State to a modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

This basis of accounting is similar to the cash receipts and disbursements 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. The Service Center also reports long-term investments as assets, valued at cost.

The financial statements now include government-wide financial statements presented on a modified cash basis and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column. The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for government programs reflects the governmental fund balances for governmental funds at June 30, 2003. There was no effect on beginning fund balances at July 1, 2003.

For fiscal year 2004, the School District has implemented GASB Statement No. 40, “*Deposit and Investment Risk Disclosure*” and GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation*”.

GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of these statements did not result in any change to the Service Center’s financial statements.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. ACCOUNTABILITY AND COMPLIANCE**

Ohio Administrative Code Section 117-02-03(B), requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Service Center prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The Service Center can be fined and various other administrative remedies may be taken against the Service Center.

The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. The following funds had a deficit cash balance on the budgetary basis.

| <u>Fund</u>  | <u>Deficit Cash<br/>Balance</u> |
|--------------|---------------------------------|
| General Fund | \$ 82,941                       |

**5. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States treasury 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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit, or savings deposit accounts, including but not limited to passbook 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; and
7. The State Treasurer's investment pool (STAR Ohio)
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.
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.

**Deposits** – At fiscal year end, the carrying amount of the Service Center's deposits was \$3,379,969 and the bank balance was \$3,698,246. 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. At fiscal year end, \$3,298,246 of the Service Center's bank balance of \$3,698,246 was exposed to custodial credit risk because it was uninsured and collateralized.

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. DEPOSITS AND INVESTMENTS (Continued)**

**Investments:** Investments are reported at fair value. As of June 30, 2005, the Service Center's investments were as follows:

|                                       | <b>Carrying<br/>Value</b> | <b>Market Value</b> | <b>Maturity</b>  |
|---------------------------------------|---------------------------|---------------------|------------------|
| Federal National Mortgage Association | \$ 500,000                | \$ 489,690          | January 30, 2007 |
| Federal National Mortgage Association | 500,000                   | 493,750             | April 30, 2007   |
| Federal National Mortgage Association | 500,000                   | 491,565             | August 6, 2007   |
| Federal National Mortgage Association | 250,000                   | 245,235             | April 20, 2006   |
| Federal National Mortgage Association | 251,394                   | 247,735             | March 28, 2006   |
| Federal Home Loan Bank Bonds          | 250,003                   | 244,533             | October 20, 2006 |
| Federal Home Loan Bank Bonds          | 251,195                   | 249,140             | December 1, 2005 |
| Federal Home Loan Bank Bonds          | <u>501,656</u>            | <u>491,720</u>      | July 28, 2006    |
| Totals                                | 3,004,248                 | <u>\$2,953,368</u>  |                  |
| Star Ohio                             | <u>1,519,380</u>          |                     |                  |
| Total Investments                     | <u>\$4,523,628</u>        |                     |                  |

**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 purchasers 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 Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations.

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

Of the Service Center's investments the underlying securities in the form of Federal Home Loan Bank and Federal Home Loan Mortgage Corporation Notes and Bonds with a Standard and Poor credit rating of AAA are held by the investment's counterparty, and not in the name of the Service Center.

**Concentration Risk** - The Service Center places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the Service Center's total portfolio:

|                           | <b>Value as of<br/>June 30, 2004</b> | <b>Percent of<br/>Investment<br/>Total</b> |
|---------------------------|--------------------------------------|--|
| Federal National Mortgage | \$2,001,394                          | 44.2%                                      |
| Federal Home Loan Bank    | 1,002,854                            | 22.2%                                      |
| STAR Ohio                 | <u>1,519,380</u>                     | <u>33.6%</u>                               |
| <b>Total</b>              | <u>\$4,523,628</u>                   | <u>100.00%</u>                             |

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. PRIMARY RECEIPT SOURCES**

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

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

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Service Center's territory times \$37.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The third part represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement. The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as charges for services. The other money distributed within this section is State money appropriately recorded as unrestricted grants-in-aid.

**B. State Foundation Distributions**

**1. Amounts Paid by the Local School Districts**

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

**2. Amounts Paid under Contract by Local School Districts**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. 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 2004, the Service Center contracted for the following insurance coverage through the Ohio School Risk Sharing Authority:

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

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

The Service Center participates in the 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**

The Service Center participates in the Northwest Ohio Area Computer Services Cooperative Worker's Compensation Group Rating Program (the Program), an insurance purchasing pool. The Program is intended to reduce premiums for the participants. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the program.

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

**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.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 11, 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 Allied Benefit Systems, Inc. In fiscal year 2004, the Service Center contributed \$4,302 to the life insurance plan and \$15,943 to the cafeteria 125 flexible plan.

**8. PENSION PLANS**

**A. School Employees Retirement System**

The Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute at an actuarially determined rate. The current Service Center rate is 14 percent of annual covered payroll. A portion of the Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$59,498, \$40,933 and \$22,067; 100 percent has been contributed for fiscal year 2004, 2003 and 2002.

**B. State Teachers Retirement System**

The Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. PENSION PLANS (Continued)**

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of 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.

For the fiscal year ended June 30, 2004, 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$321,655, \$368,110 and \$243,342; 100 percent has been contributed for fiscal year 2004, 2003 and 2002. Total contribution to the Defined Contribution and Combined Plans for fiscal year 2004 were \$11,918 made by the Service Center and \$14,317 made by the plan members.

**9. POSTEMPLOYMENT BENEFITS**

The Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Service Center, this amount equaled \$24,723 for fiscal year 2004.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2004 fiscal year, the Service Center paid \$32,138 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**10. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Area Computer Services Cooperative (NOACSC)**

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

The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Ray Burden, who serves as Director, 645 South Main Street, Lima, Ohio 45804.

**B. West Central Regional Professional Development Center**

The West Central Regional Professional Development Center (Center) is a jointly governed organization among the educational entities in Allen, Auglaize, Hancock, Hardin, Allen, Paulding, Putnam, and Van Wert Counties.

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

The Center was formed to establish an articulated regional structure for professional development in which educational entities, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

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

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

SERRC is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating educational entities, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating educational entity is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Treasurer, Hardin County Educational Service Center, 1121 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

**11. 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. Northwest Ohio Area Computer Service Cooperative Workers' Compensation Group Rating Plan**

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

**EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**11. INSURANCE PURCHASING POOLS (Continued)**

**C. Allen County Schools Health Benefit Plan**

The Service Center participates in the Allen County Schools Health Benefit Plan (the Program), a public entity shared risk pool consisting of the school districts within Allen County. The Program is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustees, Allied Benefit Systems Inc., concerning aspects of the administration of the Trust.

**12. GRANTS**

The Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2004



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated July 20, 2006, wherein, we noted the Service Center used a comprehensive basis of accounting other than generally accepted accounting principles. We also noted that for the fiscal year ended June 30, 2004, the Service Center revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-002 listed above to be a material weakness. In a separate letter to the Service Center's management dated July 20, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Service Center's management dated July 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

July 20, 2006

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2005 AND 2004

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

FINDING NUMBER 2005-001

**Noncompliance - Reporting**

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

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

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

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

**Officials' Response:**

The Allen County ESC utilizes the Uniform School Accounting System, but does not wish to adopt the GAAP accounting method. As an ESC we are not incurring large debt, we have no busses or transportation fleet, have no large depreciation factors, etc. Undergoing a transfer to GAAP accounting would be time consuming, expensive and meaningless.

FINDING NUMBER 2005-002

**Material Weakness - Bank to Book Reconciliation**

The accounting records did not reconcile with the bank during any month of the audit period. Monthly reconciliations were out of balance from a minimum of \$172,537 to a maximum of \$657,422, with a discrepancy of \$408,277 at June 30, 2005. This discrepancy is attributed to the Health Care Benefit Program, Agency Fund for which the Service Center acts as fiscal agent. The fund balance of the Health Care Benefit fund rather than the bank balance was being used when performing the book to bank reconciliations. In addition, the fund balance was not in agreement with the third party administrator of the Health Care Benefit Program.

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

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

**FINDING NUMBER 2005-002  
(continued)**

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

**Officials' Response:**

We request that this "finding," be considered as a recommendation in the management letter since no fraud exists. In fact, we wish to commend the audit staff for recognizing the complexities of this issue and their assistance with attempting to solve the dilemma.

The last paragraph of this finding outlines tasks that should occur. We respectfully request that due to the complexity of the issue and there being no fraudulent elements, that this finding be placed in the management letter. We will endeavor to comply with the activities outlined in this paragraph to come into compliance.

**Auditor of State's Analysis:**

We have reviewed the officials' response and considered the request for this finding to be considered to be reported in the management letter. Even though we did not find any evidence of a fraud being committed, we still feel that this issue was a significant issue and thus a reportable condition considering the varying amounts by which the account disclosed an unreconciled balance.

EDUCATIONAL SERVICE CENTER  
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain</i> : |
|----------------|---|------------------|---|
| 2003-001       | Preparing annual financial report in accordance with GAAP | No               | Not Corrected; Repeated as 2005-001   |
| 2003-002       | Bank to Book Reconciliation                               | No               | Not Corrected; Repeated as 2005-002   |





**Auditor of State  
Betty Montgomery**

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**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  
AUGUST 24, 2006**