



**SANDUSKY EDUCATIONAL SERVICE CENTER
SANDUSKY COUNTY**

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**SANDUSKY EDUCATIONAL SERVICE CENTER
SANDUSKY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Sandusky Educational Service Center
Sandusky County
500 West State Street
Fremont, Ohio 43420-2579

To the Members of the Board:

We have audited the accompanying financial statements of the Sandusky Educational Service Center, Sandusky County, (the Center) as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, and results of operations of the Center as of and for the year ended June 30, 2008, in accordance with accounting principles generally accepted in the United State of America.

During fiscal year 2008 the Center changed its financial statement presentation method to conform to presentation methods established by the Auditor of State for governmental entities not required to report in accordance with accounting principles Generally Accepted in the United States of America.

As indicated in Note 9 of the financial statements, the Center disbanded effective June 30, 2008.

The Center has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2008, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

Mary Taylor, CPA
Auditor of State

October 23, 2008

**SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER
SANDUSKY COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL
FUND TYPES FOR THE YEAR ENDED JUNE 30, 2008

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Intergovernmental	\$1,090,182	\$166,228	\$1,256,410
Interest	50,081		50,081
Tuition and Fees	2,482,373		2,482,373
Gifts and Donations	1,795		1,795
Customer Services	16,604		16,604
Miscellaneous	3,485		3,485
Total Cash Receipts	<u>3,644,520</u>	<u>166,228</u>	<u>3,810,748</u>
Cash Disbursements			
Instruction:			
Regular	71,088	91,429	162,517
Special	2,341,768	47,292	2,389,060
Support Services:			
Pupils	886,802		886,802
Instructional Staff	397,539	29,398	426,937
Board of Education	76,697		76,697
Administration	240,804		240,804
Fiscal	172,876		172,876
Pupil Transportation	91,518		91,518
Central		383	383
Operation of non-instructional services	580		580
Total Cash Disbursements	<u>4,279,672</u>	<u>168,502</u>	<u>4,448,174</u>
Excess of Cash Receipts Under Cash Disbursements	(635,152)	(2,274)	(637,426)
Fund Cash Balances, July 1 (Restated)	1,244,557	14,525	1,259,082
Fund Cash Balances, June 30	<u>\$ 609,405</u>	<u>\$ 12,251</u>	<u>\$ 621,656</u>
Reserve for Encumbrances, June 30	<u>\$ 49,891</u>		<u>\$ 49,891</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE ENTITY

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

The Center is a County Educational Center as defined by Section 3313.01 of the Ohio Revised Code. The Center operates under an elected Board of Education (5 members). Board members must be residents of the local school systems located in Sandusky County. The Center provides educational services to the local school systems in Sandusky County as well as nine city school districts, which have a contractual relationship with the Center.

The Center believes these financial statements present all activities for which the Center is accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Center's accounting policies.

A. Basis of Presentation – Fund Accounting

The Center uses fund accounting to segregate cash and investments that are restricted as to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities. For financial statement presentation purposes, the various funds of the Center are grouped into the governmental fund type.

GOVERNMENTAL FUND TYPES

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

General Fund - The general fund is the operating fund of the Center. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds - Special revenue funds account for the proceeds of specific revenue sources (other than capital projects or trust funds) that are legally restricted to expenditures for specified purposes.

B. Basis of Accounting

The Center's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

C. Capital Assets

Acquisitions of capital assets are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Unpaid Vacation and Sick 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 basis of accounting used by the Center.

E. Cash and Investments

During fiscal year 2008, investments were limited to certificates of deposit. Investments are stated at cost. Investment earnings are allocated as authorized by State Statute and Board resolution. All investments had a maturity of five years or less.

F. Total Columns on Financial Statements

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

3. ACCOUNTING CHANGE

During fiscal year 2008, the Center changed its method of accounting from generally accepted accounting principles to a basis 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. This change had the following affect on fund balances as previously reported:

Fund Type	At 6/30/07	Adjustments	At 7/1/07
General	\$ 1,456,848	\$ (212,291)	\$ 1,244,557
Special Revenue	27,260	(12,735)	14,525

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

Interim 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 pass book accounts.

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

State Statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,
8. Under limited 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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Center maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

At year-end, the carrying amount of the Center's deposits was \$621,656 and the bank balance was \$811,306. The bank balance was covered by federal depository insurance and collateralized by the financial institution's public entity deposit pool.

5. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its financial statements on a regulatory 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 Center can be fined and various other administrative remedies may be taken against the Center.

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. RISK MANAGEMENT

The Center has obtained commercial insurance for the following risks:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Aggregate	Ohio School Plan	\$ 3,000,000	N/A
Each occurrence	Ohio School Plan	1,000,000	N/A
Employee Benefits Liability:			
Aggregate	Ohio School Plan	3,000,000	N/A
Each Offense	Ohio School Plan	1,000,000	N/A
Employers' Liability – Stop Gap	Ohio School Plan	1,000,000	N/A
Legal Liability:			
Errors and Omissions			
Aggregate	Ohio School Plan	3,000,000	N/A
Each occurrence	Ohio School Plan	1,000,000	N/A
Property	Ohio School Plan	521,000	1,000
Boiler and machinery	Ohio School Plan	250,000	1,000
Crime:			
Employee Theft	Ohio School Plan	25,000	1,000
Forgery or Alternation	Ohio School Plan	25,000	1,000
Theft of money and securities	Ohio School Plan	10,000	1,000
Auto:			
General liability	Ohio School Plan	1,000,000	N/A

7. PUBLIC ENTITY RISK POOL

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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The Service Center has contracted with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) to provide medical/surgical and dental insurance for its employees and their covered dependents. The OME-RESA is a shared risk pool comprised of multiple entities. The Service Center pays monthly contributions that are placed in a fund from which eligible claims are paid for employees and their covered dependents. Claims are paid for all participants regardless of claims flow. In the event of termination, all participating entities' claims would be paid without regard to their individual account balances. The OME-RESA Board of Directors has authority to return monies to an exiting entity subsequent to the settlement of all claims and expenses.

**SANDUSKY COUNTY EDUCATIONAL CENTER
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. PUBLIC ENTITY RISK POOL – (Continued)

The Service Center pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2008, plan members contributed 10 percent of their annual-covered salary and the Center contributed 14 percent. The Center has paid all contributions required through June 30, 2008.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Contribution rates are also prescribed by the Ohio Revised Code. For fiscal year 2008, members of STRS contributed 10 percent of their wages to the STRS. The Center contributed an amount equal to 14 percent of their wages. The Center has paid all contributions required through June 30, 2008.

9. DISBANDING OF CENTER OPERATIONS AND SUBSEQUENT EVENTS

As of June 30, 2008, the Center disbanded based on section 3311.051 of the Ohio Revised Code. A receiver was appointed by the Sandusky County Common Pleas Court to oversee all property during the pendency of the Center's litigation or until further order from the court. The Court reserves judgment on the disposition of any remaining funds and assets of the Center following payment of all obligations.

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Mary Taylor, CPA

Auditor of State

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

Sandusky Educational Service Center
Sandusky County
500 West State Street
Fremont, Ohio 43420-2579

To the Members of the Board:

We have audited the financial statements of the Sandusky Educational Service Center, Sandusky County, (the Center) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008, wherein we noted the Center switched from preparing financial statements in accordance with accounting principles generally accepted in the United States of America to preparing statements in accordance with another comprehensive basis of accounting. We also issued an adverse opinion on the financial statements since they were not prepared in accordance with accounting principles generally accepted in the United States of America and we noted the Center is disbanding operations. 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 Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the 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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

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

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



Mary Taylor, CPA
Auditor of State

October 23, 2008

**SANDUSKY EDUCATIONAL SERVICE CENTER
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Noncompliance Citation

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

Ohio Administrative Code 117-2-03(B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Center prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code § 117.38 the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Officials' Response: The Center has filed GAAP in the past audits but due to the Sandusky Educational Service Center disbanding as of June 30, 2008, this report was filed under cash basis.



Mary Taylor, CPA
Auditor of State

SANDUSKY COUNTY EDUCATIONAL SERVICE CENTER

SANDUSKY 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
NOVEMBER 13, 2008**