



**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2001 - 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying financial statements of the Educational Service Center, Allen County, (the Center) as of and for the years ended June 30, 2001 and June 30, 2000. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the Center prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Center, as of June 30, 2001 and June 30, 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2001, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

September 24, 2001

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Intergovernmental Receipts	\$1,555,086	\$368,091		\$1,923,177
Interest	78,146			78,146
Tuition and Fees	6,462	14,015		20,477
Extracurricular Activities		236		236
Charges For Services	2,077,266			2,077,266
Other	24,687	37,347		62,034
Total Cash Receipts	3,741,647	419,689		4,161,336
Cash Disbursements:				
Current:				
Instruction:				
Regular	130,325	140,427		270,752
Special	1,629,655	846		1,630,501
Support Services:				
Pupils	1,020,509	5,403		1,025,912
Instructional Staff	578,653	104,030	\$258	682,941
Board of Education	6,732			6,732
Administration	262,988			262,988
Fiscal	66,179			66,179
Business	1,584			1,584
Operation and Maintenance of Plant	829			829
Pupil Transportation		118,565		118,565
Central		1,999		1,999
Operation of Non-Instructional Services		173		173
Intergovernmental Disbursements		45,584	48,346	93,930
Total Cash Disbursements	3,697,454	417,027	48,604	4,163,085
Cash Receipts Over (Under) Cash Disbursements	44,193	2,662	(48,604)	(1,749)
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	16,812			16,812
Refund of Prior Year Receipts	(2,085)			(2,085)
Total Other Financing Sources and Uses	14,727			14,727
Total Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	58,920	2,662	(48,604)	12,978
Fund Cash Balances at Beginning of Year	815,289	294,061	48,604	1,157,954
Fund Cash Balances at End of Year	\$874,209	\$296,723	\$0	\$1,170,932
Reserve for Encumbrances at End of Year	\$29,975	\$34,192	\$0	\$64,167

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES – PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Internal Service	Agency	
Operating Cash Receipts			
Operating Cash Disbursements:			
Salaries		\$2,000	\$2,000
Fringe Benefits		476	476
Purchased Services	\$1,290	12,752,664	12,753,954
Materials and Supplies	147		147
Other	564	369,780	370,344
Total Operating Cash Disbursements	2,001	13,124,920	13,126,921
Operating Income/(Loss)	(2,001)	(13,124,920)	(13,126,921)
Non-Operating Cash Receipts			
Earnings on Investments		139,210	139,210
Refund of Prior Year Expenditures		280,610	280,610
Other Miscellaneous	2,000	11,227,148	11,229,148
Total Non-Operating Cash Receipts	2,000	11,646,968	11,648,968
Net Receipts Over/(Under) Disbursements	(1)	(1,477,952)	(1,477,953)
Fund Cash Balances at Beginning of Year	380	2,817,831	2,818,211
Fund Cash Balances at Ending of Year	\$379	\$1,339,879	\$1,340,258
Reserve for Encumbrances at End of Year	\$88	\$51,523	\$51,611

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Intergovernmental Receipts	\$1,365,360	\$223,620		\$1,588,980
Interest	76,323			76,323
Tuition and Fees	2,735	16,768		19,503
Extracurricular Activities		158		158
Charges For Services	1,339,218			1,339,218
Other	67,238	38,853		106,091
Total Cash Receipts	2,850,874	279,399		3,130,273
Cash Disbursements:				
Current:				
Instruction:				
Regular	125,674	1,244		126,918
Special	1,247,892	32,827		1,280,719
Support Services:				
Pupils	837,968	3,467	\$31,768	873,203
Instructional Staff	533,231	63,315	300	596,846
Board of Education	7,270			7,270
Administration	267,737	2,815		270,552
Fiscal	59,545			59,545
Business	2,725			2,725
Operation and Maintenance of Plant	5,120			5,120
Pupil Transportation		105,296		105,296
Central		3,818		3,818
Operation of Non-Instructional Services		324		324
Intergovernmental Disbursements	11,134		166,768	177,902
Total Cash Disbursements	3,098,296	213,106	198,836	3,510,238
Cash Receipts Over (Under) Cash Disbursements	(247,422)	66,293	(198,836)	(379,965)
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	9,276			9,276
Refund of Prior Year Receipts		(3,535)		(3,535)
Other Miscellaneous Use of Funds		(1,578)		(1,578)
Total Other Financing Sources and Uses	9,276	(5,113)		4,163
Total Cash Receipts and Other Sources Over (Under) Cash Disbursements and Other Uses	(238,146)	61,180	(198,836)	(375,802)
Fund Cash Balances at Beginning of Year	1,053,435	232,881	247,440	1,533,756
Fund Cash Balances at End of Year	\$815,289	\$294,061	\$48,604	\$1,157,954
Reserve for Encumbrances at End of Year	\$8,061	\$20,752	\$48,331	\$77,144

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES – PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

	<u>Proprietary Fund Type</u> Internal Service	<u>Fiduciary Fund Type</u> Agency	<u>Totals (Memorandum Only)</u>
Operating Cash Receipts			
Operating Cash Disbursements:			
Salaries		\$2,000	\$2,000
Fringe Benefits		501	501
Purchased Services	\$1,411	11,639,256	11,640,667
Materials and Supplies	556		556
Other	194	299,360	299,554
Total Operating Cash Disbursements	<u>2,161</u>	<u>11,941,117</u>	<u>11,943,278</u>
Operating Income/(Loss)	(2,161)	(11,941,117)	(11,943,278)
Non-Operating Cash Receipts			
Earnings on Investments		203,039	203,039
Refund of Prior Year Expenditures	450	34,655	35,105
Other Miscellaneous	2,350	9,525,808	9,528,158
Total Non-Operating Cash Receipts	<u>2,800</u>	<u>9,763,502</u>	<u>9,766,302</u>
Net Receipts Over/(Under) Disbursements	639	(2,177,615)	(2,176,976)
Fund Cash Balances at Beginning of Year	<u>(259)</u>	<u>4,995,446</u>	<u>4,995,187</u>
Fund Cash Balances at Ending of Year	<u>\$380</u>	<u>\$2,817,831</u>	<u>\$2,818,211</u>
Reserve for Encumbrances at End of Year	<u>\$135</u>	<u>\$6,020</u>	<u>\$6,155</u>

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000**

1. DESCRIPTION OF THE REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 to prepare its annual financial report in accordance with generally accepted accounting principles, the Center chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

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

A. Basis Of Presentation - Fund Accounting

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

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Center are financed. The acquisition, use, and balances of the Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Center's governmental fund types:

General Fund

The General Fund is the operating fund of the Center and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Center for any purpose provided it is expended or transferred

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

according to the general laws of Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Capital Projects Funds

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

2. Proprietary Fund Types:

To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Internal Service Funds

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

3. Fiduciary Fund Type:

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

B. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable.

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

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenditures of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Center. The State Department of Education reviews the budget and certifies to each local board of education, under the supervision of the Center, the amount from part (B) that is to be apportioned to their school district.

1. Appropriations:

An annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the Center's Board.

The Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

2. Encumbrances:

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

3. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

C. Cash and Cash Equivalents

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

During fiscal years 2001 and 2000, investments were limited to certificates of deposit, treasury notes, federal government securities and STAR Ohio. Certificates of deposit are reported at cost.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2001.

D. Flow-Through Grants

The Center is the primary recipient of grants which are passed through or spent on behalf of the local school districts within the County. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2001 and 2000, this included the Preschool Grant and Alternative School Grant special revenue funds.

E. Property, Plant and Equipment

Fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds.

F. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick pay are not accrued under the cash basis of accounting described in Note 2. At June 30, 2001, and in accordance with the Center's sick leave policy, management estimates that \$1,498,590 in sick leave, \$8,419 in personal leave and \$10,001 in vacation leave has been accumulated by the employees of the Center. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2001.

G. Total Columns on General Purpose Financial Statements

Total columns on the financial statements are captioned "Totals (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. DEPOSITS 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 the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

Protection of the 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.

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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided 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 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At fiscal year end 2001, the carrying amount of the Center's deposits was \$1,262,930 and the bank balance was \$1,446,454. Of the bank balance, \$202,890 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized.

At fiscal year end 2000, the carrying amount of the Center's deposits was \$955,454 and the bank balance was \$1,139,737. Of the bank balance, \$306,312 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized.

Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Center's investments are categorized to give an indication of the level of risk assumed by the Center at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name.

Investments in STAROhio are not classified since they are not evidenced by securities that exist in physical or book entry form.

	<u>2001</u>			<u>2000</u>	
	Carrying Value	Fair Value	Risk Category 2	Carrying Value	Fair Value
Federal Agency Securities	\$	\$	\$2,000,000	\$2,000,000	\$1,989,330
STAROhio	1,248,260	1,248,260		1,020,711	1,020,711
Total	<u>\$1,248,260</u>	<u>\$1,248,260</u>		<u>\$3,020,711</u>	<u>\$3,010,041</u>

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,183,876	\$3,758,459	(\$574,583)
Special Revenue	278,843	419,689	(140,846)
Internal Service	2,350	2,000	(350)
Fiduciary	<u>10,702,000</u>	<u>11,646,968</u>	<u>(944,968)</u>
Total	<u>\$14,167,069</u>	<u>\$15,827,116</u>	<u>(\$1,660,047)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,076,527	\$3,729,514	\$347,013
Special Revenue	736,447	451,219	285,228
Capital Projects	295,770	48,604	247,166
Internal Service	3,614	2,089	1,525
Fiduciary	<u>13,519,731</u>	<u>13,176,443</u>	<u>343,288</u>
Total	<u>\$18,632,089</u>	<u>\$17,407,869</u>	<u>\$1,224,220</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 0	\$2,860,150	(\$2,860,150)
Special Revenue	99,198	279,399	(180,201)
Internal Service	0	2,800	(2,800)
Fiduciary	<u>9,664,160</u>	<u>9,763,502</u>	<u>(99,342)</u>
Total	<u>\$9,763,358</u>	<u>\$12,905,851</u>	<u>(\$3,142,493)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 3,714,574	\$ 3,106,357	\$ 608,217
Special Revenue	408,407	238,971	169,436
Capital Projects	247,440	247,167	273
Internal Service	3,478	2,296	1,182
Fiduciary	<u>14,765,447</u>	<u>11,947,137</u>	<u>2,818,310</u>
Total	<u>\$19,139,346</u>	<u>\$15,541,928</u>	<u>\$3,597,418</u>

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

5. STATE FUNDING

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources. Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education.

Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's School Foundation Program.

The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Center by \$37 for 2001 and \$36 for 2000. This amount is provided from State resources.

If additional funding is needed by the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased.

The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

6. INTERGOVERNMENTAL REVENUES

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Center at June 30, 2001 or June 30, 2000.

7. RISK MANAGEMENT

The 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. The Center contracted with Nationwide Insurance for general liability and fleet insurance, and with Indiana Insurance Company for property insurance. Coverages provided by the various insurances are as follows:

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

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

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

7. RISK MANAGEMENT (Continued)

The Center participates in the NOACSC Workers' Compensation Group Rating Plan (the Plan) (Note 10), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of Gates-McDonald provides administrative, cost control, and actuarial services to the Plan. Each year, the Educational Service Center pays an enrollment fee to the Plan to cover the costs of administering the program.

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

In addition to the health benefits provided to employees under the Allen County Schools Health Benefit Plan disclosed in Note 10, the Center offers life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this plan. The life insurance and cafeteria 125 plans are also administered by CoreSource. In fiscal year 2001, the Center contributed \$2,797 to the life insurance plan and \$10,840 to the cafeteria 125 flexible plan.

8. DEFINED BENEFIT PENSION PLAN

A. 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Center is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$235,360, \$122,114, and \$91,470, respectively; 100 percent has been contributed for all three fiscal years.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

8. DEFINED BENEFIT PENSION PLAN (Continued)

B. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 4.2 percent was the portion used to fund pension obligations for fiscal year 2001. For fiscal year 2000, 5.5 percent 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 Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$14,598, \$16,503, and \$24,920, respectively; 100 percent has been contributed for all three fiscal years.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2001, one member of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Area Computer Services Cooperative (NWOACSC)

The Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Paulding, Putnam, and Van Wert Counties, and the Cities of St. 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 Michael Wildermuth, who serves as director, 645 South Main Street, Lima, Ohio 45804.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. West Central Regional Professional Development Center

The West Central Regional Professional Development Center (the Center) is a jointly governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, 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 representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Brad Browne, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

10. INSURANCE POOLS

A. NWOACSC Workers' Compensation Group Rating Plan

The Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The NOACSC Workers' Compensation Group Rating Plan (the Plan) was established through the Northwest Ohio Area Computer Services Cooperative (NOACSC) as an insurance purchasing pool. The Safety Coordinator, Robert Lotz, of NOACSC, or his designee, serves as coordinator of the Plan. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Allen County Schools Health Benefit Plan

The Center participates in the Allen County Schools Health Benefit Plan (the Program), a public entity shared risk pool consisting of the school districts within Allen county. The 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 Trustee, CoreSource, concerning aspects of the administration of the Trust.

**EDUCATIONAL SERVICE CENTER
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000
(Continued)**

11. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 24, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Allen County, (the Center) as of and for the years ended June 30, 2001, and June 30, 2000, and have issued our report thereon dated September 24, 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10202-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Center in a separate letter dated September 24, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated September 24, 2001.

Educational Service Center
Allen County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

September 24, 2001

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

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

FINDING NUMBER 2001-10202-001

NON COMPLIANCE

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

The Center prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center. Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Center in a Fiscal Caution Status. This status requires the Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

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

EDUCATIONAL SERVICE CENTER
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2000

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1999-10202-001	Cash Basis Statements	No	Not corrected - still filing on cash basis.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

ALLEN COUNTY EDUCATIONAL SERVICES 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
NOVEMBER 27, 2001**