



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants.....	1
Combined Statement of Cash, Investments and Fund Cash Balances - All Fund Types - As of June 30, 2002.....	3
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types For the Fiscal Year Ended June 30, 2002.....	4
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Proprietary Fund Types For the Fiscal Year Ended June 30, 2002.....	5
Combined Statement of Receipts - Budget and Actual - All Budgeted Fund Types - For the Fiscal Year Ended June 30, 2002.....	6
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - All Budgeted Fund Types - For the Fiscal Year Ended June 30, 2002.....	7
Notes to the Financial Statements	9
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	21
Schedule of Findings.....	23
Schedule of Prior Audit Findings	25
Corrective Action Plan.....	26

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Belmont Educational Service Center
Belmont County
410 Fox-Shannon Place
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the accompanying financial statements of the Belmont Educational Service Center, Belmont County, Ohio, (the Educational Service Center), as of and for the fiscal year ended June 30, 2002. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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(B) requires the Educational 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 have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the Belmont Educational Service Center, Belmont County, as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2002 on our consideration of the Educational Service 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 management, Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 25, 2002

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2002**

Cash and Cash Equivalents	\$284,102
Investments:	
STAROhio	<u>22,029</u>
Total	<u><u>\$306,131</u></u>

CASH BALANCES BY FUND TYPE

Governmental Funds:	
General Fund	\$226,463
Special Revenue Funds	5,156
Proprietary Funds:	
Enterprise Fund	
Internal Service Funds	<u>74,512</u>
Total	<u><u>\$306,131</u></u>

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

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Cash Receipts:			
Receipts from Local Sources:			
Earnings on Investments	\$5,944	\$	\$5,944
Charges for Services	672,889		672,889
Miscellaneous	21		21
Receipts from Intermediate Sources:			
Restricted Grants-In-Aid		1,300	1,300
Receipts from State Sources:			
Unrestricted Grants-in-Aid	587,811		587,811
Restricted Grants-in-Aid		3,000	3,000
Receipts from Federal Sources:			
Unrestricted Grants-In-Aid		1,763	1,763
Restricted Grants-in-Aid	177,232	49,913	227,145
Total Cash Receipts	1,443,897	55,976	1,499,873
Cash Disbursements:			
Instruction:			
Special	322,235	36,582	358,817
Other Instruction	76,784		76,784
Supporting Services:			
Pupils	437,403		437,403
Instructional Staff	414,039	51,948	465,987
Board of Education	18,806		18,806
Administration	171,351	1,678	173,029
Fiscal Services	69,134	2,365	71,499
Pupil Transportation	3,099		3,099
Central	1,790	24,278	26,068
Total Cash Disbursements	1,514,641	116,851	1,631,492
Excess of Cash Receipts Over/(Under)			
Cash Disbursements	(70,744)	(60,875)	(131,619)
Other Financing Sources:			
Transfers-In	8,910		8,910
Refund of Prior Year Expenditures	11,359		11,359
Total Other Financing Sources	20,269	0	20,269
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements	(50,475)	(60,875)	(111,350)
Fund Cash Balances, July 1	276,938	66,031	342,969
Fund Cash Balances, June 30	\$226,463	\$5,156	\$231,619
Reserve for Encumbrances, June 30	\$120	\$3,414	\$3,534

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

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum Only)
Operating Cash Disbursements:			
Employees' Retirement and Insurance		\$168	\$168
Purchased Services		56,141	56,141
Supplies and Materials		2,605	2,605
Total Operating Cash Disbursements	0	58,914	58,914
Operating Loss	0	(58,914)	(58,914)
Nonoperating Cash Receipts:			
Earnings on Investments		2,461	2,461
Miscellaneous		75,114	75,114
Total Nonoperating Cash Receipts	0	77,575	77,575
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	0	18,661	18,661
Transfers-Out	(8,910)		(8,910)
Net Income/(Loss)	(8,910)	18,661	9,751
Fund Cash Balances, July 1	8,910	55,851	64,761
Fund Cash Balances, June 30	\$0	\$74,512	\$74,512

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

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$1,487,527	\$1,464,166	(\$23,361)
Special Revenue	71,585	55,976	(15,609)
Proprietary			
Internal Service	77,448	77,575	127
Totals (Memorandum Only)	<u>\$1,636,560</u>	<u>\$1,597,717</u>	<u>(\$38,843)</u>

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

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Total Appropriations</u>	<u>Total Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$1,543,672	1,514,761	\$28,911
Special Revenue	137,615	120,265	17,350
Proprietary			
Enterprise	8,910	8,910	0
Internal Service	61,207	58,914	2,293
Totals (Memorandum Only)	<u>\$1,751,404</u>	<u>\$1,702,850</u>	<u>\$48,554</u>

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

This page intentionally left blank.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

The Belmont Educational 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 Educational Service Center is a combined Educational Service Center as defined by Section 3311.053 of the Ohio Revised Code. The Educational Service Center provides supervisory, special education, administrative, and other services to the Barnesville Exempted Village, Bellaire Local, Bridgeport Exempted Village, Martins Ferry City, Shadyside Local, St. Clairsville-Richland City, and Union Local School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. As of June 30, 2002, the Educational Service Center employed 30 certificated and 9 non-certificated employees.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements of the Educational Service Center are not misleading. The primary government consists of all funds, departments, boards, and agencies which are not legally separate from the Educational Service Center. For Belmont Educational Service Center, this includes general operations and student related activities. The Educational Service Center does not have any component units.

The Educational Service Center is associated with the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA), which is defined as a jointly governed organization, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool, and the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which is defined as a claims servicing pool. These organizations are presented in Notes 5, 9, and 10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the Educational Service Center chooses to prepare its financial statements and notes in accordance with the standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. 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).

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

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Educational Service Center in a Fiscal Caution Status. This status requires the Educational Service Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

B. Pooled Cash and Investments

The Educational Service Center maintains a cash and investment pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments and Fund Cash Balances" as "Cash Balances by Fund Type."

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Pooled Cash and Investments (Continued)

Certificates of deposit and STAROhio are valued at cost. For purposes of financial statement presentation, certificates of deposit are considered cash equivalents.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

C. Fund Accounting

The Educational Service Center uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Educational Service Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and proprietary.

Governmental Fund Types

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

General Fund

The General Fund is the general operating fund of the Educational Service 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 Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

Special Revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Proprietary Fund Type

Proprietary funds are used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis.

D. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable.

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

1. Appropriations

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. When necessary, the school board passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The school board limits the amount of the appropriations by fund to the amount of the estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. 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 Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so 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 statements 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.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation.

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.

E. Property, Plant and Equipment

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

F. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are not accrued under the cash basis of accounting described in Note 1. 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 value of these benefits as of June 30, 2002.

G. Total Columns on 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. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the Educational 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 Educational Service Center Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board 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.

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.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Protection of the Educational Service 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 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 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. 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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies 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 Educational Service 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.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2002, the Educational Service Center's Internal Service Fund had a balance of \$73,260 with OME-RESA, a jointly governed organization (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid Eastern Regional Educational Service Agency Self-Insurance Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

A. Deposits

At June 30, 2002, the carrying amount of the Educational Service Center's deposits was \$210,842 and the bank balance was \$214,606. Of the bank balances as of June 30, 2002, \$100,000 was covered by federal deposit insurance and \$114,606 was uninsured and uncollateralized. Although the State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service 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 Educational Service Center's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The Educational Service Center's investment in STAROhio has a market value of \$22,029 as of June 30, 2002.

4. STATE FUNDING

The Educational Service 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 Educational Service 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 Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Educational Service Center by \$37 for fiscal year 2002. This amount is provided from State resources.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. STATE FUNDING (Continued)

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service 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 Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school district's approve or disapprove the additional apportionment.

5. RISK MANAGEMENT

A. Property and Liability

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

Professional and general liability is provided by the Nationwide Insurance Company with a \$1,000,000 single occurrence limit with \$3,000,000 aggregate and no deductible. Settled claims have not exceeded this commercial coverage in any of the past five years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (see Note 10). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' 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 GRP. Each participant pays its workers' 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 percentage 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 school districts 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. Employee Medical Benefits

The Educational Service Center is self insured for prescription, vision, life and dental insurance. The Educational Service Center is a member of the OME-RESA claims servicing pool. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf. These premium costs are recovered by costs from charges to other funds based on an actuarially determined cost per employee. The claims liability of \$1,347 below is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, be reported.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits (Continued)

A comparison of Self Insurance cash and investments to the actuarially-measured liability as of June 30 follows:

	<u>2002</u>	<u>2001</u>
Cash and investments	\$73,260	\$55,006
Actuarial liabilities	\$1,347	\$4,793

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. That 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 Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 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 a statutory maximum amount, by the SERS' Retirement Board. The required contributions for the Educational Service Center's pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$7,932, \$10,909, and \$12,862, respectively.

B. State Teachers Retirement System

The Educational Service Center participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2001, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$81,126, \$99,440, and \$56,080, respectively.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, one Board member of the Educational Service Center has elected Social Security. The Board's liability is 6.2 percent of wages paid.

7. POSTEMPLOYMENT BENEFITS

The Educational 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.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$38,428 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefit, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001 employer contributions to fund health care benefits were 8.54 percent of covered payroll. 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 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$50,258.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

8. OTHER EMPLOYEE BENEFITS

Life Insurance

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to employees through Self-Funded Plans, Inc., located in Cleveland, Ohio.

9. JOINTLY GOVERNED ORGANIZATION

Ohio Mid Eastern Regional Educational Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to State statutes. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA provides financial accounting services, educational management information system, and cooperative purchasing services to member districts. OME-RESA possesses its own budgeting authority. To obtain financial information write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

10. PUBLIC ENTITY POOLS

Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. PUBLIC ENTITY POOLS (Continued)

Claims Servicing Pool

The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. The Plan's business affairs are conducted by a nine member Board of Directors elected from OME-RESA's assembly. Each participant is a member of the assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

11. CONTINGENCIES

A. Grants

The Educational 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 the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

12. 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.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts the parts of the decision changing the school districts that are used as a basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The Case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future funding and on its financial operations.

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

Belmont Educational Service Center
Belmont County
410 Fox-Shannon Place
St. Clairsville, Ohio 43950

To the Board of Education:

We have audited the financial statements of the Belmont Educational Service Center, Belmont County, Ohio (the Educational Service Center), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated November 25, 2002, which noted the Educational Service Center prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). 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 Educational Service 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-11007-001 and 2002-11007-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated November 25, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be 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 Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2002-11007-003.

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. 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 to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

Jim Petro
Auditor of State

November 25, 2002

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

FINDING NUMBER 2002-11007-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-03(B) requires the Educational Service Center to file its annual financial report pursuant to generally accepted accounting principles.

The Educational 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. The Educational Service Center can be fined and various other legal administrative remedies may be taken against the Educational Service Center.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the Educational Service Center in a Fiscal Caution Status. This status requires the Educational Service Center to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

We recommend that the Educational Service Center take the necessary steps to ensure the annual financial report is prepared in accordance with generally accepted accounting principles.

FINDING NUMBER 2002-11007-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate - This exception provides that, if the fiscal officer can certify that both at the time of order or contract was made and at the time he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free of any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The Educational service Center did not obtain the Treasurer's prior certification for forty-five percent of the tested transactions, nor was there evidence of a "Then and Now" certificate being used by the Treasurer.

We recommend the Educational Service Center obtain the Treasurer's prior certification for all disbursements.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2002-11007-003

Reportable Condition

Monitoring of Monthly Reconciliations

The Treasurer prepared the monthly reconciliations for the General Checking Account and Payroll Clearance Checking Account. In addition, the Treasurer made some of the posting entries to the accounting system and made some of the bank deposits. These monthly reconciliations were not reviewed by anyone independent of the Treasurer.

As a result, errors could occur in the reconciliation process and go undetected. During our audit period, the corporation and payroll checking accounts went months being not in agreement with the accounting system.

We recommend an individual independent of the reconciliation process periodically review the bank reconciliations performed by the Treasurer. This should be evidenced by their initials and date of review. In addition, a copy of all monthly reconciliations should be made a part of the reporting package presented to the Board of Education at their monthly meetings. The corporation and payroll checking accounts have been reconciled with the accounting system as of the date of our report.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2001-11007-001	Ohio Rev. Code Section 5705.41(D) for no prior Treasurer certification of the expenditures.	No	Not Corrected; the noncompliance citation is repeated for the fiscal year ended June 30, 2002 (Finding Number 2002-11007-002).
2001-11007-002 and 2001-11007-003	OMB Circular A-87 – Attachment A, Sections C1j and C2 for inadequate documentation of costs charged to federal awards.	No	Finding no longer valid, program no longer in effect. The Educational Service Center issued check number 12591, in the amount of \$59,135.15, to the grantor agency for un-obligated grant funds.

**BELMONT EDUCATIONAL SERVICE CENTER
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-11007-001	None.	N/A	Judy Oberdick, Treasurer
2002-11007-002	Implement procedures of utilizing blanket and super blanket purchase orders to reduce the number of expenditures without prior certification.	December 31, 2002	Judy Oberdick, Treasurer
2002-11007-003	Implement procedures to fully reconcile all bank accounts monthly with a detailed explanation of all reconciling items; the reconciliations will then be further reviewed and approved by other personnel.	December 31, 2002	Judy Oberdick, Treasurer



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

BELMONT EDUCATIONAL SERVICE CENTER

BELMONT 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
JANUARY 7, 2003**